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FISCAL YEAR 1984 AUTHORIZATIONS FOR CUSTOMS SERVICE, INTERNATIONAL TRADE COMMISSION, AND U.S. TRADE REPRESENTATIVE; RECOMMENDATIONS FOR MARCH 15 REPORT TO BUDGET COMMITTEE

HEARING
BEFORE THE
SUBCOMMITTEE ON TRADE
OF THE
COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

FIRST SESSION

FEBRUARY 15, 1983

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FISCAL YEAR 1984 AUTHORIZATIONS FOR CUSTOMS SERVICE, INTERNATIONAL TRADE COMMISSION, AND U.S. TRADE REPRESENTATIVE; RECOMMENDATIONS FOR MARCH 15 REPORT TO BUDGET COMMITTEE

TUESDAY, FEBRUARY 15, 1983

**HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
*Washington, D.C.***

The subcommittee met at 9:30 a.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

[The press release announcing the hearing follows:]

[Press Release of Wednesday, Feb. 2, 1983]

HON. SAM M. GIBBONS, CHAIRMAN, SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES HEARING ON FISCAL YEAR 1984 AUTHORIZATIONS FOR THE U.S. CUSTOMS SERVICE, INTERNATIONAL TRADE COMMISSION, U.S. TRADE REPRESENTATIVE, AND ON TRADE RECOMMENDATIONS FOR MARCH 15 REPORT TO THE COMMITTEE ON THE BUDGET

The Honorable Sam M. Gibbons, Chairman of the Subcommittee on Trade of the Committee on Ways and Means, U.S. House of Representatives, today announced public hearings on Tuesday, February 15, and, if necessary, Wednesday, February 16, 1983, on:

The fiscal year 1984 budget for the U.S. Customs Service;

The fiscal year 1984 budget for the U.S. International Trade Commission;

The fiscal year 1984 budget for the U.S. Trade Representative;

The fiscal year 1984 budget for the trade adjustment assistance programs for workers and firms administered by the Departments of Labor and Commerce, including recommendations for program changes;

Other budget issues under the Subcommittee's jurisdiction, which include Department of Commerce activities in trade agreement implementation, countervailing duty and antidumping administration, activities of the Foreign Commercial Service, export promotion, trade statistics and industry analysis, and textile programs; and

Programs of the U.S. Customs Service and Department of Commerce to enforce export controls.

The hearings will be held both days in the main hearing room of the Committee on Ways and Means, 1100 Longworth House Office Building. The hearings will begin at 9:30 a.m. on February 15 and at 10 a.m. on February 16. Subcommittee markup of its budget recommendations to the full Committee on Ways and Means will be held at a later date.

Administration officials will testify first on February 15 on President Reagan's fiscal year 1984 budget proposals in each of the areas listed above. The interested public is welcome to testify on budget proposals involving the agencies and programs under the Subcommittee's jurisdiction. Public witnesses will be allotted time for verbal presentations based on the total time available to the Subcommittee following testimony by the Administration. Also, in lieu of personal appearances, any

interested person or organization may file a written statement for inclusion in the printed hearing record.

DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD

Requests to be heard must be received by telephone to Harriett Lawler [telephone (202) 225-3627] by the close of business, Thursday, February 10, 1983. The request should be followed by a formal written request addressed to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Room 1102 Longworth House Office Building, Washington, D.C. 20515.

In order to assure the most productive use of the limited amount of time available to question hearing witnesses, witnesses scheduled to appear before the Subcommittee are required to submit 75 copies of their prepared statements to the full Committee office, Room 1102 Longworth House Office Building, at least 24 hours in advance of their scheduled appearances.

Each statement to be presented to the Subcommittee or any written statement submitted for the record must contain the following information:

- (1) The name, full address, and capacity in which the witness will appear (as well as a telephone number where he or his designated representative may be reached);
- (2) A list of any clients or persons, or any organization for whom the witness appears; and
- (3) A topical outline or summary of the comments and recommendations in the full statement.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE

Persons submitting a written statement in lieu of a personal appearance should submit at least six (6) copies of their statement, by the close of business Friday, February 18, 1983, to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Room 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements for the record of the printed hearing wish to have their statements distributed to the press and the interested public, they may submit 50 additional copies for this purpose if provided to the Committee during the course of the public hearing.

Chairman GIBBONS. Good morning, ladies and gentlemen. This is a meeting of the Subcommittee on Trade of the Ways and Means Committee. Today we will hold our annual hearing to review the budget requests for fiscal year 1984 of the agencies and programs within our jurisdiction so that we can make recommendations to the full committee for inclusion in its report to the Budget Committee.

The second major purpose of these hearings is to consider the authorization bills for the 1984 appropriations for the U.S. International Trade Commission, the U.S. Customs Service, and the U.S. Trade Representative.

Finally, this hearing will provide an opportunity for annual oversight of agency programs and activities.

Before we begin, I would like to announce that the subcommittee will issue a press release today describing hearings to be held soon, perhaps next month, on ways we might improve the operation of the antidumping countervailing duty, import relief, section 301, and other remedial provisions of the trade laws.

We will be particularly interested in receiving ideas as to how these laws may be made less costly and less time consuming and more effective.

Today we will receive testimony first from three agencies for which we have authorizing responsibility. We intend to complete these hearings today. Since we have a long list of witnesses, I will remind you that you may summarize your testimony and it will be printed in full in the committee hearing record.

Our first witness is the Chairman of the International Trade Commission, Mr. Al Eckes.

We are glad to have you with us here, sir, and you may proceed as you wish.

STATEMENT OF ALFRED E. ECKES, JR., CHAIRMAN, U.S. INTERNATIONAL TRADE COMMISSION, ACCOMPANIED BY RICHARD ARNOLD, DIRECTOR, OFFICE OF FINANCE AND BUDGET

Chairman Eckes. Thank you very much, Mr. Chairman. It is a pleasure and honor to be here. Since you have a copy of the statement, I will quickly summarize it and then we will take questions from the subcommittee.

As you know, sir, the International Trade Commission is a uniquely independent agency with quasi-legislative and quasi-judicial functions. One of our primary responsibilities is to assist Congress on trade-related issues.

To continue our programs at existing levels, the Commission is requesting \$21.24 million for fiscal year 1984. This represents an increase of \$1.36 million over fiscal year 1983 funding of \$19.88 million. In brief, our proposal contemplates no changes in programs, and staffing would remain at the level of 438 employees.

The increase in funds requested stems solely from our need to fully fund the approved staff level and from nondiscretionary increases in program costs.

Let me quickly outline what underlies our budget request. Our workload is largely beyond our control, as this committee knows so well, and we believe it is going to grow in the next several years. As a service agency, we cannot set our own agenda; rather, we must be ready at a moment's notice to provide assistance to Congress and the President on trade matters.

We are required to work within very strict deadlines. The experience of the past year illustrates our problem. During fiscal year 1982 the Commission completed 234 investigations, up from 98 in the previous year—a 140-percent increase.

Because of growing trade problems, there were many requests for assistance from Congress, the President, and other agencies. Our staff resources were stretched very thin. In this next fiscal year, we anticipate our workload will continue to increase, particularly because of the anticipated rise in the trade deficit. Indeed, the widening trade deficit, I believe, could cost from 1 to 1.5 million more U.S. jobs in 1983.

This situation is unparalleled, perhaps approximating that in the pre-World War II period of the Great Depression with its international financial and economic collapse. Under such conditions, it is also likely we will see requests from Congress and the Executive for the ITC to conduct studies and investigations of trade problems.

Briefly, Mr. Chairman, we believe our budget proposal is a lean one. It is our best estimate for what we need to carry out our increasing responsibilities. As you know, much is expected of the Commission at this time when international trade looms as a major concern for the Nation.

One final point I would like to call to your attention concerns our building. This is a 140-year-old historical landmark, one of the

three oldest Government office buildings in Washington, but I am saddened to report that it is in deplorable physical condition.

If we are unable to resolve that matter reasonably quickly with the General Services Administration, we may have to come to this committee and the Appropriations Committees for assistance.

Thank you for giving me this opportunity to discuss the Commission's budget with you today. I and my colleagues would be happy to respond to any questions.

[The prepared statement follows:]

STATEMENT OF ALFRED E. ECKES, CHAIRMAN, U.S. INTERNATIONAL TRADE COMMISSION

Mr. Chairman and members of the Subcommittee, I am pleased to have this opportunity to discuss the Commission's fiscal year 1984 budget request. I am accompanied today by Lorin Goodrich, our Director of Administration and Richard Arnold, our Director of Finance and Budget. Other staff members are also present.

As you know, the International Trade Commission is a uniquely independent agency with quasi-legislative and quasi-judicial functions. One of our primary responsibilities is to assist Congress and the Executive on trade-related issues. To continue our programs at existing levels, the Commission is requesting \$21,241,000 for fiscal year 1984. Note that I have amended the request submitted in our Budget Justification to add \$138,000 for annualization of the executive pay cap increase approved in December. This total represents an increase of \$1,360,000 over fiscal year 1983 funding of \$19,881,000 (which includes our FY 1983 appropriation of \$19,150,000 plus requested pay supplementals). In brief, our proposal contemplates no change in programs; and staffing would remain at the level of 438 employees, the same level of full-time positions approved by our appropriations committees since 1980. The increase in appropriations requested stems from our need to fully fund that approved staff level and from nondiscretionary increases in program costs.

Let me explain what underlies our budget request.

First, our work load is largely beyond our control and is expected to grow over the next several years. As a service agency, we cannot set our own agenda. Rather we must be ready at a moment's notice to provide assistance to Congress and the President on trade matters. Also, under various statutes the Commission must handle a variety of requests for import relief within very strict deadlines.

The experience of the past year vividly illustrates our problem. During fiscal year 1982, the Commission completed 234 investigations, up from 98 in the previous year, and worked on 106 more for a total caseload of 340. At the same time, because of the growing number of trade problems, there were many requests for assistance from Congress, the President, and other agencies. As our funding for fiscal year 1982 remained uncertain throughout the year, we could not staff at the approved level, and our resources were severely overtaxed.

In fiscal year 1984, we anticipate that our work load will continue to increase. There are several reasons for this. First, there is growing evidence that there is a link between high budget deficits, high interest rates to finance those deficits and a high exchange rate for the dollar caused by investors moving into dollars to seek high interest. A strong dollar means that U.S. goods become less competitive in world markets and burgeoning trade deficits result. During calendar year 1983, the U.S. trade deficit is expected to increase from 1982's level of over \$40 billion to double that figure or more.

Using a conservative assumption that each \$1 billion increase in the trade deficit costs 25,000 jobs, it is reasonable to expect trade dislocations to have a growing impact on U.S. industries and workers. Indeed, the widening trade deficit could cost from 1 million to 1.5 million more U.S. jobs in 1983. In this situation, unparalleled in the post-World War II experience, we anticipate an increase in our statutory investigations as industries seek relief from foreign competition. It is also likely we will see an increase in requests from Congress and the Executive for the I.T.C. to conduct studies and investigations of trade problems.

An improvement in the U.S. economy in 1983 is unlikely to lighten our workload in fiscal year 1984. Traditionally, this agency is contracyclical—our statutory workload varies inversely with the health of the economy—but it lags changes in the economy significantly. Thus, a quick improvement in the U.S. economy and a smaller-than-expected trade deficit would not reduce our statutory investigations for some time.

There is another reason for expecting our caseload to rise. With low labor costs and modern industrial facilities, many newly emerging industrial nations are increasing exports to our market. At one time this import competition touched only labor-intensive products, like footwear and textiles. Now the competition has extended to industries like steel, transportation equipment, and machinery; and there is growing evidence that chemicals, pharmaceuticals, and high-technology electronics are experiencing increased pressure from foreign producers.

The expanding scope of import competition will mean new challenges for the Commission. Much of the case load in fiscal year 1982 and thus far this year has involved steel products. We have accumulated a large data base for many of these products and thus work on the cases could be "packaged" in a way that will not be possible in the future. The cases we anticipate in fiscal year 1984 will require more staff research and analysis, and the acquisition of additional technical expertise to cope with products and services we have not encountered in previous investigations.

In several other areas we see additional pressure on Commission resources. The workload under Section 337, a highly specialized area involving patents, copyrights and trademarks, is growing steadily. We anticipate more trademark cases in fiscal year 1984, along with a continued heavy flow of patent-related cases.

As you know, one of our most important functions is to assist Congress and policy-making agencies with technical information. During the past year, this involved extensive support for other government agencies preparing for the GATT (General Agreement on Tariffs and Trade) ministerial in November 1982. Currently we are providing assistance to help develop a GATT work program in services, and we are heavily involved in preparations for international trade negotiations on the Harmonized Commodity Code expected in January 1984.

During fiscal year 1982, the Commission continued to devote large staff resources to the Harmonized System conversion. This work, involving public hearings and discussions with industry, in addition to meetings with the international trade community is still continuing. The draft conversion is due to the President in June. Over the next several years, as the conversion process goes forward, the Commission will need to provide both Congress and the Executive with much additional assistance on this complex matter.

Another area where I expect increased activity is in Section 332. Under this authority, the Commission conducts investigations and research studies for Congress and the President. We also self-initiate studies on such timely subjects as export subsidies, Performance requirements, and the impact of fluctuating exchange rates on U.S. trade competitiveness. In the future, we anticipate many requests, specifically in the areas of high technology and the U.S. fishing industry.

Our trade-monitoring efforts have become increasingly valuable to Congress and the Executive. As the committee knows, the Commission's technical analysts regularly monitor shifting patterns of exports and imports in specific commodities, and developments in East-West trade. We provide regular reports on trade in motor vehicles, chemicals, and other commodities. We have enhanced data-retrieval and reporting capabilities to make this important technical information available to Congress, other government agencies, and industry trade associations.

At this point I should note that the technical expertise of our industry analysts and trade specialists is one of the U.S. government's prime resources. Private sector analysts (Business Week, January 17, 1983) have said that the ITC is "the only office in Washington extensively looking at domestic and international trends and trying to assess the future of American industries." As this nation confronts changing trade conditions, the unique capabilities of our specialists will be increasingly important to the government.

Because it is critical to the nation that we maintain and improve this expertise, we plan to expand and improve our training and professional development programs in the future. Among my priorities are: (1) involving our analysts and researchers increasingly in high technology and service studies where the Commission already has done some work; (2) expanding the use of on-line computer terminals; (3) improving the availability of data in our Library; and (4) encouraging our managers to expand their own fields of specialization and to use the new technologies now available.

The Commission has a reputation for fiscal responsibility, a reputation we value and will strive to maintain. This year and in fiscal year 1984, we will implement certain administrative improvements to help us balance the expanding program requirements I have described with the need for fiscal restraint. These include installing our own computer and additional word-processing equipment, converting the manual TSUSA publication system to an automated system, and adopting an in-house accounting system. The accounting system, scheduled for operation in fiscal

year 1984, will allow more intensive cost analyses than are now possible and thus, better control of resources. We continually search for ways to reduce expenditures; for example, we recently determined that we could limit Federal Register inserts and so lower printing costs.

Economies such as these and productivity increases resulting from new technology are factored into our budget request for fiscal year 1984. This is a lean budget—our best estimate of what we need to carry out our increasing responsibilities. Much is expected of the Commission at a time when international trade looms as a major concern for the nation. We must have the resources to respond promptly and effectively to the demands placed upon us.

One final point: recently I sent a letter to this subcommittee describing our struggle to rehabilitate the Commission's main building at 701 E Street, NW. This 140-year-old historic landmark is in a deplorable physical condition. Although Congress authorized GSA \$5.8 million in 1974 to repair the building, only \$1.2 million was used before the authorization expired, 56 percent of that amount for roof repairs that proved unsatisfactory and for "design and management" costs. We have had to spend \$750,000 of our own funds since 1974 for repairs GSA would not undertake.

Every year rehabilitation is delayed, estimated costs climb higher; the most recent estimate for basic renovation was \$9.9 million. Now GSA Administrator Carmen had informed us that work will not proceed until 1988-1989. A delay of this magnitude will threaten the health and safety of our staff and undoubtedly will result in much higher costs to the government. If we are not able to resolve this matter with GSA satisfactorily, we will have to seek some sort of relief from our authorization and appropriation committees.

Thank you for giving us the opportunity to discuss the Commission's budget request with you today. The staff and I will try to answer any questions you may have.

Chairman ECKES. Let me briefly introduce those at the front table with me. On my right is Commissioner Paula Stern, and on her right is Commissioner Veronica Haggart. On my left is Rick Arnold, our budget officer.

Chairman GIBBONS. Thank you, sir. We are glad to have all three of you, and the budget officer, too.

Let me ask you some questions now. If you are holding the line on personnel and programs for fiscal year 1984, why do you need a 6-percent increase in your authorization? Have you overestimated inflation?

Chairman ECKES. I don't think we have overestimated inflation, Mr. Chairman. During the last year, as you know, we were authorized at the level of 438 staff positions, but because of inadequate and uncertain funding, we simply were not able to operate at that level. As a consequence, there were some temporary savings, but our people were stretched very thin and we had a great deal of difficulty accommodating the increased case load.

The desire to fully fund the positions which have been authorized since 1980, together with the rise in other incremental costs that are beyond our control, account for the proposed 6.8-percent increase.

STEEL CASES

Chairman GIBBONS. Last year you handled an extremely large number of steel petitions, and I assume that these petitions have now been disposed of—at least I hope they have—and the case load will be dropping in this area.

Aren't you in a better position to handle the other work now, or has there been a big increase in nonsteel cases?

Chairman ECKES. I wish that it were true, Mr. Chairman, that the number of cases was declining. First of all, we anticipate a rise

in cases because of the rise in the trade deficit. We are traditionally a contracyclical agency. Our business booms when the world economy goes bust. So that is obviously a factor.

But let me also point out several other considerations. We were able to treat the large number of steel cases—we dealt with 92 preliminary carbon steel cases initially, plus an additional number that were filed later—as several large investigative units. Therefore, we had only six or eight separate hearings on carbon steel.

Now our opportunities to package investigations will be limited. Also, we are seeing a gradual growth in the number of cases in areas where we have never had cases before. These cases feature increasingly specialized products, not mushrooms and apparel and footwear where the Commission has developed considerable expertise over the years, but such things as space amplifiers, and CAT scanners for the brain. Products like these are really testing our technical expertise and requiring an upgrading of our staff.

These investigations are much more labor intensive than were the carbon steel investigations. So I think that although it seems that the number is declining, when you exempt the carbon steel cases, the number of cases is actually increasing.

Just this fiscal year, for example, we have had 50 filings. During a comparable period of the last fiscal year, excluding carbon steel, we had 33 filings. I anticipate that the trend is going to continue. We could be wrong.

Chairman GIBBONS. Are you saying that of the 234 investigations that you completed last year, all but about 50 of those were steel?

Chairman ECKES. There were about 151 steel investigations.

Chairman GIBBONS. Do you believe that those have been finally disposed of?

Chairman ECKES. Well, some of them, of course, involved European steel, and as you know, an agreement was worked out with the Europeans and those cases were terminated. We have some continuing cases. At the present time we are dealing with a massive 201 case in specialty steel, including alloy and stainless. We have a number of specialty steel cases involving the Europeans, the Koreans, and I believe the Brazilians and Venezuelans under way at the present time.

Chairman GIBBONS. Did you find that the procedures and personnel of the agency were adequate to handle all of these types of cases last year, particularly the steel case?

Chairman ECKES. We survived, Mr. Chairman. It was very difficult. The steel cases hit us in the most difficult period, when a plane crashed into the 14th Street Bridge and a major blizzard hit the Washington area. We had to process those 92 cases in 45 days for a preliminary decision.

We met our deadlines, but only because some of our investigators and other staff specialists worked through the blizzard, and sacrificed evenings and weekends; and only because the members of the Commission were able to expedite the preparation of their opinions.

I think we were stretched very thin and I would hope that we wouldn't have so many cases hit us at any single time again. If they can be staggered, I think we can adjust to the increase in case load.

INFORMATION GATHERING

Chairman GIBBONS. Let me ask you: Do you have to do much traveling to gather information for these cases? Does the agency have to do a lot of traveling? Does its staff have to do much traveling for the gathering of that type of information?

Chairman ECKES. Particularly at the latter stages of investigations we do send investigators where it is appropriate to send them. The Commissioners ordinarily do not travel much in the conduct of the investigations.

Chairman GIBBONS. Do your people have to travel overseas?

Chairman ECKES. On occasion we will send investigators overseas to collect data. We do it only after it is cleared with appropriate authorities in the State Department.

Chairman GIBBONS. Do you have much difficulty in working with foreign governments to collect this data?

Chairman ECKES. That has been a traditional problem, yes, sir.

Chairman GIBBONS. How do you get around it?

Chairman ECKES. Well, oftentimes we cannot collect as much data abroad as we might like. But keep in mind that our principal function is to look at injury to the domestic industry, whereas the Commerce Department really has to send investigators abroad to investigate the size of the margins and all. I think their problem probably would be more acute than ours in that regard. Our problem comes with developing information about foreign capacity and such things as that.

Chairman GIBBONS. Is there any problem in coordinating anti-dumping and countervailing duty cases with the Commerce Department, which you have shared jurisdiction with?

Chairman ECKES. Mr. Chairman, I think we have had an excellent working relationship at the investigative level and very limited contact at any other level. I personally only have admiration for how the Commerce Department has functioned in its specialized area of this bifurcated process.

Chairman GIBBONS. Any other problems in coordinating with any other Federal agencies?

Chairman ECKES. Nothing very serious. From time to time there are small matters of confusion with the U.S. Trade Representative, often involving the specialized 337 cases, but nothing acute.

ITC BUILDING

Chairman GIBBONS. Would you give the committee a little more background on the history of your building, particularly its present condition?

Chairman ECKES. I would be delighted to, Mr. Chairman. The building, once known as the Tariff Commission Building, was begun in the 1830's under the Presidency of Martin Van Buren, at the same time the Treasury and what is now the National Portrait Gallery were begun.

We believe it is in deplorable physical condition. Windows are falling out, the roof leaks badly, we have problems in our library because of books being spoiled, the electrical system is outmoded, the plumbing system is inadequate, and the courtyard needs shoring and may very well collapse unless something is done.

I have supplied the committee staff with a booklet of pictures of the situation that I think vividly describes it. The General Services Administration controls the building and seems eager to turn over the structure to the Smithsonian, and for this reason it appears unwilling to invest in proper maintenance.

Turning over the building to the Smithsonian, from my vantage point, is not really the solution that it first appears because the Smithsonian in all likelihood would approach Congress for funds to renovate the historic building, so the costs are going to remain approximately the same.

In the 1970's, Congress actually authorized \$5.8 million to restore the building, but GSA spent only \$1.2 million on the structure, so many important planned repairs were not completed when the money was available. As we all know so well, costs have spiraled in the interim.

I think our purpose here is just to call your attention to this very difficult situation, not to suggest particular remedies for it.

Obviously, there are several options. One is that the building could be restored and modernized. Current estimates are that this would cost from \$10 to \$20 million. Another option might be to move the Commission to another Government building in the downtown area that is convenient to Congress and the executive agencies and the trade bar that we deal with, but GSA has not indicated that it has anything that would roughly approximate our space needs.

Another option might be a move to leased space, but there are several problems here. We are currently paying GSA about \$8.93 per square foot for our roughly 88,000 square feet in that building. Rental space, I am told, goes in the downtown area for \$18 to \$20 per square foot. In short, if we were to move into rental space, it would probably cost us about \$1 million more per year to pay for the additional rental space, whereas \$1 million a year spent on the building over a period of time could go a long way toward renovating it.

I am not proposing a solution but only seeking to call this committee's attention to the problem in the hope that we can work something out.

Chairman GIBBONS. Well, you are an agency of the Congress and we want you close. You have to coordinate with the Commerce Department and the other Federal agencies that are all in this downtown area; is that correct?

Chairman ECKES. Yes, sir.

Chairman GIBBONS. They are all here.

Chairman ECKES. And many Members of Congress come over to testify at our public hearings. We want it to be convenient for them. Of course, there are a number of witnesses who come from out of town, so it is not feasible for us to be out beyond the beltway and face them with terrible logistical problems.

Chairman GIBBONS. Well, we perhaps will have to call the GSA and ask them to testify as to why they haven't fixed up the building, and we should tell them you are not anxious to move. Why do they want to turn it over to the Smithsonian? Do you know?

Chairman ECKES. Well, the National Portrait Gallery is adjacent to it, and I suppose that the Smithsonian has over the years ex-

pressed some interest in the building if the ITC were to vacate it. GSA seems to think that the building is not cost effective to maintain. It has high ceilings. It is a very nice old building.

The other side of it is, of course, that the Treasury Building, done by the same architect, is maintained. The Treasury is identified with the Treasury Building much the same way that the Trade Commission is identified with the old Tariff Commission Building.

Chairman GIBBONS. Well, I will tell you, I would rather they had moved you over to where they put that horrible looking East Wing of the National Gallery, and as far as I am concerned, they can throw all those people out and put you all in that space. [Laughter.]

That has got to be one of the most atrocious looking buildings they have built down here since the Air and Space Museum.

Well, I think we will get them up here to talk to them about your housing conditions.

Mr. Pease.

TSUS ITEM 807

Mr. PEASE. Mr. Chairman, I am interested in a couple of questions relating to item 807 in the Tariff Schedule. Do you feel competent to respond to questions in that area?

Chairman ECKES. If I don't have the answer to it, Congressman, we will provide it in a posthearing statement. I know something about it, but I may not be up to date on some of the intricacies of that provision.

Mr. PEASE. Do you have your 807 expert with you today?

Chairman ECKES. I think we have one. We may very well have the answer at hand.

Mr. PEASE. OK. Well, I recognize these are fairly arcane questions, so if you have any problem, I will be happy to get an answer later.

I am particularly interested in the use of item 807 to bring automobiles into the United States. According to your most recent statistics, what percentage of the total use of 807 would be represented by motor vehicles? Do you have any idea?

Chairman ECKES. I don't off the top of the hat. I think we will have to provide that, Congressman.

Mr. PEASE. I would be interested in knowing an answer to that question and also the dollar amount of duty-free value and dutiable value within that first figure.

Chairman ECKES. We will provide that.

[The information referred to follows:]

RESPONSE TO MR. PEASE'S QUESTIONS

The principal commodities that are classified as motor vehicles are passenger automobiles, automobile trucks, buses, and special-purpose vehicles. Passenger automobiles accounted for more than 97 percent of the total 807.00 value of motor vehicles in 1980-81.

All motor vehicles accounted for 38 percent of total 807.00 imports in 1980 and increased to 40 percent in 1981, rising from \$5.3 billion to \$6.4 billion. The U.S.-produced automotive parts that are exported for assembly and returned as finished motor vehicles under item 807.00 include automatic transmissions, headlamps, turbochargers, seat fabric, carpeting, seatbelts, tires, pumps, valves, door locks, catalytic converters, compressors, and a few other small miscellaneous motor-vehicle parts.

Almost all these parts are installed on new passenger automobiles and small pickup trucks. The duty-free value of motor vehicles accounted for \$59.9 million in 1980 and increased to \$88.3 million in 1981, representing less than a 2-percent ratio of duty-free imports to total 807.00 imports. Because the ratio of duty-free imports to total 807.00 imports for motor vehicles is expected to remain relatively constant in the 1982 statistics, duty-free imports are estimated at \$105.0 million. The dutiable value of motor vehicles increased from \$5.2 billion in 1980 to \$6.3 billion in 1981 and is estimated at \$7.9 billion for 1982.

Foreign manufacturers continue to use U.S.-produced components for motor vehicles for three basic reasons; to satisfy U.S. safety or pollution standards, to lower foreign production costs, and, as an attempt by foreign manufacturers to increase purchases of U.S.-made components.

Mr. PEASE. Mr. Chairman, for the time being that is all.
Chairman GIBBONS. Mr. Frenzel.

GSA SPACE RENTAL RATES

Mr. FRENZEL. Thank you, Mr. Chairman.

Thank you for your testimony. In your discussions with the chairman about your space costs, how are you billed for space in your building? What is the basis of the rental charge laid on you by the GSA? Do you know?

Mr. ARNOLD. We are billed through what is referred to as the SLUC method, the standard level user charge, and it is based on the rental values in the area that the building is located. Within that, GSA makes a determination as to the rental value of the building and then they just establish it and we have to accept it.

Mr. FRENZEL. So you pay the same rent that a user of a good building in your area would pay?

Mr. ARNOLD. It is not necessarily the same, but it is within a range that is established by GSA within that area. As a matter of fact, we do have some space in another building across the street, and our current rate is lower than that.

Mr. FRENZEL. Your GSA rate is lower than the rate you are paying from a private source across the street?

Mr. ARNOLD. No; the rate that we pay for the building across the street is still through the GSA, which leases it through a private source, but it is a newer building and the rate there is higher.

Mr. FRENZEL. It is higher than your building?

Mr. ARNOLD. Yes.

Mr. FRENZEL. In your judgment, is the rate you are paying to GSA for rental a reasonable one?

Chairman ECKES. I don't have an answer to that, Congressman. It is certainly not excessive by rental standards in the downtown area, but at the same time, we don't seem to be getting proper maintenance for the building out of the fee.

Mr. FRENZEL. So your complaint is not with the rental amount; it is with the maintenance.

Chairman ECKES. That is right, putting aside the issue of whether the rental amount is fair or not.

Mr. FRENZEL. And the building, at least parts of it are 150 years old.

Chairman ECKES. Yes, sir, begun in the late 1830's.

DOMESTIC INDUSTRY

Mr. FRENZEL. That is an important landmark.

Mr. Chairman, would you tell me how the ITC defines a domestic industry? Maybe I ought to footnote the question by indicating that petitioners at your tribunal of justice have apparently been defined as not domestic industries, even though they invent and patent and copyright a product which may then be made or partly made overseas.

How does somebody become not a domestic industry in the eyes of the ITC and why?

Chairman ECKES. That is a very difficult question for us, Congressman, for a couple of reasons. One, as you know, we are a quasi-judicial body and we have had several controversial cases involving this issue, one of which is up for Presidential review. Another one, I believe, is in the courts under appeal. So I am not really in a position where I can say anything that isn't in our written opinions, a point I am sure you can appreciate.

I believe section 337 says there are some points of difference between domestic industry and industry in the United States. The Commission might hope that the legislative language were a little clearer about congressional intent in this area so that we could apply it on a case-by-case basis.

It may be that the courts will help us define what a domestic industry is. There is some concern, I am sure, in quarters about town that one importer not come in to the ITC and use our facilities to sue another importer, which is the extreme case. We have tried to define what constitutes a domestic industry in two recent opinions, one dealing with toy trucks and another one with cubes. I believe you have copies of those opinions, and I cannot do more than repeat the language we have used in them.

Mr. FRENZEL. OK. The problem with the opinions is, however, that you are sort of extraditing U.S. companies who happen to use offshore suppliers, aren't you? You are denying them protections which other domestic companies have.

Chairman ECKES. Well, there are some who feel—

Mr. FRENZEL. So they may as well move out of town if they are not going to be protected by U.S. laws. They may as well ship their whole operation overseas. You haven't given them in those decisions that you have made very much protection. That is the problem.

Chairman ECKES. Well, the problem is exactly the definition of domestic industry and whether the issues at stake satisfy the definition. It was the Commission's judgment in the toy trucks case that they did not. In the cubes case the majority of the Commission felt that it was a domestic industry.

Mr. FRENZEL. Well, I am not going to proceed if you are unwilling to comment any further as to the basis of those decisions, but I will be taking the matter up again, I hope, with you.

Chairman ECKES. I am only reluctant, Congressman, because of the review process and the appeal to the courts.

Mr. FRENZEL. I am sure that pretty near everything is under appeal and review at all times and it makes it difficult to discuss the matters openly.

Mr. Chairman, I yield the balance of my time.

Chairman GIBBONS. Mr. Schulze.

Mr. SCHULZE. I have no questions.

Mr. PEASE. Mr. Chairman.

Chairman GIBBONS. Mr. Pease, go ahead.

TANGIBLE AND INTANGIBLE ASSIST

Mr. PEASE. Mr. Chairman, I am plowing through item 807, and item 806.3, and I would like to get an understanding of the difference between a tangible assist and an intangible assist. Can you help me with that?

Chairman ECKES. I am going to ask our tariff specialist and then we will both know the answer.

[Discussion off the record.]

Chairman ECKES. We are all going to have to pass and give you an answer on that.

Mr. PEASE. If you could give us your best written definition of a tangible and intangible assist.

Chairman ECKES. Fine.

[The information referred to follows:]

DEFINITION OF TANGIBLE AND INTANGIBLE ASSISTS

An "assist" is defined in 19 U.S.C. 1401a(h) to include specified items which are supplied "... directly or indirectly, and free of charge or at reduced cost, by the buyer of imported merchandise for use in connection with the production or the sale for export to the United States of the merchandise. . . ." The value of assists, if not included in the price of the goods (i.e., not included in the cost or value of materials and fabrication or processing and not included in the part of the price representing profit and general expenses, as provided in 19 U.S.C. 1401a(e)), is added to the other statutory elements of the calculation of computed value, a method of valuation used in certain circumstances where the transaction value cannot be used as the customs value of the goods. A tangible assist refers to such things as tools, dies, molds, and similar items used to produce the merchandise being imported. An intangible assist would refer to engineering, sketches, plans, and similar items undertaken outside the United States and necessary for the production of the imported merchandise. The use of the terms tangible and intangible appears to be for convenience, since the terms are not used or defined in statutes or regulations.

Chairman GIBBONS. Thank you, Mr. Chairman. We are very happy to have you here. We will also be very happy when the President appoints two more members, or three more members, excuse me. I am sure you will, too.

Our next witness is from the U.S. Customs Service, Mr. William C. von Raab, who is the Commissioner of Customs.

I would announce to the public that for this session we are having a joint hearing with the Foreign Affairs Committee. We are pleased to have with us this morning the chairman of the Foreign Affairs Subcommittee dealing with this matter, and I will ask Mr. Bonker to join us here at the table and for any staff, and we will be joining him on some hearings also on the same subjects as we share jurisdiction in these matters.

Mr. von Raab, Mr. Commissioner, we are glad to have you and you may proceed as you wish, with the understanding that your entire written statement will appear on the record, and if you would introduce the people at the table with you.

STATEMENT OF WILLIAM C. VON RAAB, COMMISSIONER OF CUSTOMS, U.S. CUSTOMS SERVICE, ACCOMPANIED BY ALFRED R. DE ANGELUS, DEPUTY COMMISSIONER; ROBERT N. BATTARD, ACTING ASSISTANT COMMISSIONER FOR ENFORCEMENT; WILLIAM H. RUSSELL, COMPTROLLER; AND C. WAYNE HAMILTON, DIRECTOR, BUDGET DIVISION

Mr. VON RAAB. Mr. Chairman, thank you very much. We appreciate this opportunity to appear before you to present the U.S. Customs Service 1984 authorization request of \$578,749,000 and 11,748 direct average positions.

If I may, I would like to introduce the other members of the Customs Service who are here with me today. On my far right is Robert Battard, who is the regional commissioner for our southeast region, and is at present serving a 2-week tour of duty in Washington as the Acting Assistant Commissioner for Enforcement.

On my immediate right is Alfred De Angelus, who is the Deputy Commissioner of the Customs Service. On my immediate left is Wayne Hamilton, the Director of our Budget Office. On my far left is William Russell, the Comptroller of the Customs Service.

The Customs fiscal year 1984 authorization request represents a net increase of \$7,432,000 over the funds requested in fiscal 1983. Included in the 1984 request is \$50,632,000 for program enhancements and other initiatives; \$35,331,000 for increases necessary to maintain current operating levels and savings of \$78,531,000. The substantial savings to be achieved in 1984 will result from increased productivity, streamlined and consolidated organizational structures, abolition of overlapping functions, and efficiencies obtained from automated processing.

In total, these actions will generate reductions of 2,000 positions.

During the 1982 fiscal year, a large amount of the efforts of the managers of the Customs Service was devoted to increasing the role and the effect of the Customs Service in the enforcement of various laws. These resulted in expanded financial and fraud investigations, and Operation Florida, among others.

Operation Florida is a particular success to which we would like to point, which involved detailing over 250 individuals from Customs and thus far has resulted in well over 1,000 arrests, an amazing 3,800 pounds of cocaine seized, in addition to considerable other successes in trying to drive some of the drug-related crime out of Florida.

Other enforcement efforts in which we have involved ourselves are Operation Exodus, which I believe you will be covering in some more detail later on, which we regard as one of our major successes in the enforcement area. This has been a three-stage operation beginning with an inspectional effort moving into more investigations on the domestic side, and even greater investigations, we hope, in the future overseas.

Of great importance to this committee is a recent effort on Customs' behalf to increase our vigilance in the commercial area, and do what we can to ensure our revenue base by looking into all possible commercial fraud that may be taking place with respect to violations of the Customs laws. As a result of this review, we have recently instituted a commercial fraud effort which we believe

should either insure that we are obtaining a sufficient amount of duties at the border or will either uncover any duties that we may not be receiving.

Most important to this committee, however, should be some of the efforts that we have underway in the commercial area. Much of the emphasis of our commercial operations in 1983 and 1984 will be geared toward the reforming of our traditional business practices in order to prepare for far greater use of automated systems and a more efficient work force.

One of the first reforms we will be undertaking is the centralization of our appraisement centers. This can be accomplished within the current legal framework, and based upon our past experiences, it will have no economic impact on the local importing communities.

Currently, there are 65 appraisement centers around the country. These are locations where import specialists are employed. Of this, however, only 20 locations, or roughly 30 percent, process 70 percent of all formal entries filed.

Besides the obvious data processing advantages we will gain, decentralizing these appraisement centers will mean other significant benefits to the importing community, namely, a higher degree of uniform application of the law, a problem which we understand and have seen has been voiced by many Customs brokers, and a greater interchange of ideas between employees who would otherwise be virtually isolated from one another.

Another common denominator of many of the problems which we are attempting to rectify is paper, literally tons of paper that are wasting time both with customs employees and with brokers and importers as well. An intensive effort is currently under way to simplify customs forms, reduce paper work, and streamline numerous procedures.

A model seaport cargo processing concept is being tested at the Port of Houston, Tex., as well as a similar program underway in Charleston, S.C. The new procedures and reduced paper work embodied in these programs can potentially enable Customs to process more cargo with fewer resources, and possibly result in significant cost savings for industry.

A major innovation made possible by computerization and which will fit nicely with the Houston and Charleston programs is the automated broker interface system which has been successfully operating as a pilot project in Baltimore and Philadelphia. This system, which has met with a favorable response, permits direct communications with Customs automated systems, thereby eliminating excess paperwork, messenger delays, and duplication of data input effort.

We plan to have this system fully operational at no less than five locations by the end of this year.

A very, very important project in which we are involved and which I expect to receive more questions on is our effort to integrate all of our commercial systems into one EDP environment. This is a major project of the Customs Service, and one in which I am personally involved. We believe that within the next 6 to 12 months, we should have on a practical level an operating system in which all of the commercial activities of the Customs Service will

be operating on one computer, and in which they will be able to be integrated, not necessarily electronically in all cases, but certainly will be able to operate as one single unified commercial system.

Another area in which we have expended considerable effort is the area of inspection and control. Although our efforts there remain primarily the enforcement of our tariff and contraband laws, we have not failed to look into how we can process passengers at our land borders, particularly in the airports, more effectively.

In this respect, we have begun to institute red/green systems across the country. These, as you are well aware, are similar to the European red/green channels. As far as red/green systems are concerned in the United States, we have begun a very pure red/green system in the Houston airport. We have modified systems in Chicago and Miami.

With respect to the Miami system, I would comment that we began to operate the ASSIST system which had been recommended by members of this committee as well as other individuals in the executive branch.

The Customs Service found that the ASSIST system was not as effective as it might have been in enforcement, and we also felt that it would not be as facilitative as another approach. Toward the end of the last calendar year, we shifted over to a modified red/green system in the Miami airport.

The community in Miami was somewhat concerned about the likelihood of success of this effort, but I can say now that following a visit that I had just last week in which I actually met with members of the chamber of commerce, the Miami community is extremely pleased with the new system that we have established in Miami. It has reduced processing passengers times considerably, and the Customs Service is particularly pleased because our enforcement efforts and results have also increased.

In summary, I would like to state that we have spent most of 1982 concerning ourselves with restructuring, realining our enforcement efforts. At the same time, we were beginning to develop tools to begin to do the same thing in the commercial area. We hope 1983 will bring the flowering of major modifications and improvements in the commercial area.

As we move from 1983 through 1984, we hope to be refining and fine tuning some of the changes we are making in the commercial area, and at the same time making some significant changes in some of our administrative areas, particularly organizational issues, such as regions and districts.

I have recently sent a letter to the chairmen of both our Senate and House Appropriations and Authorizations Committees indicating our desire to begin to work with those committees in an effort to look into the macro organization of the Customs Service, so that we can make whatever modifications to this organization that both the Congress and the Customs Service feel would be in the interest of the trading public as well as the interest of an austere and efficient Federal Government.

In summary, then, I would like to state that we look forward to working very, very closely with your committee with respect to our commercial initiatives, and particularly with respect to some of the changes that we think would be beneficial to the functioning of the

Customs Service. We are very proud of Customs efforts in the enforcement area, and we hope that after the passage of another year, you will be proud of our efforts in the commercial area.

Thank you very much for this opportunity to speak to you, and I and other members of the Customs Service will be happy to answer any questions that you may have.

[The prepared statement follows:]

STATEMENT OF WILLIAM VON RAAB, COMMISSIONER OF CUSTOMS, U.S. CUSTOMS
SERVICE

Mr. Chairman and Members of the Committee, we appreciate this opportunity to appear before you today to present the U.S. Customs Service fiscal year 1984 authorization request of \$578,749,000 and 11,748 direct average positions.

Customs fiscal year 1984 authorization request represents a net increase of \$7,432,000 over the funds requested in fiscal year 1983. Included in the fiscal year 1984 appropriation request is \$50,632,000 for program enhancements and other initiatives, primarily in the law enforcement area, \$35,331,000 for increases necessary to maintain current operating levels, and savings of \$78,531,000.

The substantial savings to be achieved in fiscal year 1984 are the result primarily in the area of commercial activities, of increased productivity, streamlined operations, organizational consolidation, abolition of duplicative activities, and the efficiencies to be gained from the conversion of labor intensive functions to more automated processing. In total, these actions will generate reductions of 2,000 positions.

MAJOR ACCOMPLISHMENTS

The Customs Service, as you probably know, was once the main source of federal monies and still continues today to collect significant revenues as well as assuming the responsibility for interdicting drugs and other contraband seeking illegal entry across our borders. Although the primary objective of the Tariff Act is the protection of American industry, revenue collections from its enforcement produced during fiscal year 1982 a record level of \$10.0 billion, an increase of almost 10 percent over the previous year and representing a return of more than \$19 for every appropriated dollar spent by Customs in carrying out its responsibilities.

As usual, Customs also had a busy year processing the enormous volume of traffic and trade generated by the growing international economy. The dedicated Customs workforce cleared more than 300 million persons, 4.7 million merchandise entries, and more than \$257 billion in cargo entering the country. In addition, more than 91 million vehicles, vessels, and aircraft were processed. Projections for fiscal year 1984 indicate renewed growth and a continuing heavy workload in the future. By fiscal year 1984, we anticipate an increase of 7.3 percent for total persons arriving, 7.1 percent for carriers, and 9.0 percent for cargo processing.

As I stated on previous occasions, my efforts will be directed toward strengthening Customs law enforcement programs. In fiscal year 1982, many of these new programs were fully implemented and were producing excellent results. I am proud to report that in fiscal year 1982 Customs seized \$6.9 billion worth of street value drugs (\$1.7 billion in domestic wholesale). In terms of quality, Customs seizures were 290 pounds of heroin; 11,150 pounds of cocaine, 58,277 pounds of hashish; and, in conjunction with other agencies, almost 4 million pounds of marijuana. I wish to call your attention to the tremendous jump in cocaine seizures from the 3,741 pounds in fiscal year 1981. Many of our current enforcement efforts were directed to controlling this drug and I believe these results are a good indicator of Customs accomplishments.

Before discussing specific Customs programs and the enhancements for which we are requesting funding, I believe it is useful to fill you in on our current and future plans. My initial goal for Customs was to raise law enforcement to our highest priority. The nation faces two major and dangerous problems at its borders. The first is massive drug smuggling, which has been with us for at least a generation and is now about a \$100 billion illegal industry. This past year, as part of the Vice President's South Florida Task Force, Customs successfully concentrated its enforcement efforts in the South Florida area where the major share of illegal narcotics activity is centered, and huge sums of drug-related currency enter and leave the country daily to finance this deadly international traffic.

Secondly, in line with the President's call for closer cooperation among Federal enforcement agencies, Customs has become the lead agency in the Administration's

program to block the illegal transfer of critical and high-technology equipment to Eastern-bloc countries. Customs Operation Exodus, a highly effective detection and investigative effort, is deployed at major ports throughout the country. In addition, Customs is developing new approaches for improving surveillances and the cargo inspections directed at uncovering these illegal equipment shipments.

While enforcement is a top priority, facilitation and reducing the burden of Government involvement in international trade are also goals of today's Customs Service. Facilitation of passengers and cargo is a high priority. We do not believe that passenger, vehicle, piece of baggage, or cargo shipment must be searched. Since the vast majority of Customs transactions involve law abiding persons and firms, Customs officers will be directing their primary attention to "high-risk" passengers and cargo. I am convinced that effective enforcement and efficient facilitation can go hand-in-hand, without contradiction or without diminishing our law enforcement.

The enforcement effort is now well on its way to achieving at least our initial objectives and I will continue to reinforce it with resources as needed. At this time I am turning Customs attention on a high priority basis to the long-awaited and much needed reform of commercial practices; in essence, how we implement the tariff laws and how we process the vast quantity of imported merchandise.

Currently, we have identified numerous improvements which can be implemented within the current legal environment. Several important commercial initiatives are on the drawing-boards and the blueprints will be ready shortly.

If limited to several words to describe our plans for commercial operations, I believe "centralization," "automation" and "streamlining" would provide you with an accurate picture of where we are heading. Centralization is a key to the new system. The fact, it is almost upon us now, since only 20 locations process 70 percent of all formal entries. Under this plan, entries would be processed in a central location. Although entries will continue to be filed at the same ports as before, we intend to introduce a more selective review processing. I anticipate a noticeably faster turnaround at most locations. Furthermore, centralization has several additional advantages. Automation is most cost-effective where large volume processing is concerned. Also, appraisalment will be more uniform, records duplication will be minimized and, of course, administrative overhead will be reduced. Full service to the public will continue to be provided.

Simplification of forms, paperwork, and procedures will reinforce automation and help to speed up the cargo clearance process. An approach we are exploring is for carriers to provide Customs with direct access to their own automated inventory systems. We are revising procedures by eliminating much of the paperwork previously required for containerized and other forms of cargo, reducing transit time for some shipments by 24 hours. And, we are looking at other possible innovations. In Houston, we are testing a program wherein cargo is processed by teams of inspectors using post-audit techniques. In Charleston, South Carolina, we are testing a program which uses a fully automated manifest inventory control system developed by the Charleston Port Authority and the Charleston Customs district. In the latter, we interface with the port authority's own Automated Manifest System. Both systems seem to meet the needs of the processing environment of some local ports.

We have underway a major project to consolidate our data processing functions into a single computer environment. We feel it will eventually permit us to dramatically improve Customs import processing and implement new methods of collecting duties. A major innovation to be used with this new computer is the so-called Automated Broker Interface System which has been successfully operating as a pilot project in Baltimore and Philadelphia.

I have gone into considerable detail on the projected improvements in Customs commercial operations because of their importance, your interest, and the long-term needs of the international business community. Now that we have built the necessary law enforcement framework, we are turning our full attention to the commercial "side of the business."

Finally, this budget continues our efforts to reduce the overall cost of government business. Inefficient operations will be replaced by sound management practices and systems. Excessive overhead, as well as duplicative and marginal operations, have been specifically targeted for elimination to partially meet the reduced resources levels reflected in this budget. We are continuing to study other proposals to achieve resource savings and improve operation performance, including possible Regional and District reorganizations and, the introduction of less labor intensive approaches to providing service and other means to increase the percentage of entries that bypass import specialist review.

INSPECTION AND CONTROL

Customs Inspection and Control programs include the processing of persons and cargo, as well as the clearance of carriers, for both revenue and enforcement purpose. Customs efforts to balance the expeditious processing of persons and goods will continue in fiscal year 1984. Our objective, considering the resource reductions requested, is to achieve this balance in the most economical way possible while still maintaining full service.

To meet the challenge of a growing workload, we are, in the normal course of our inspections, automating and implementing increased selectivity in the handling of imported merchandise and in passenger processing. Especially in the cargo processing system, every step, from manifesting to duty collection, is subject to time-saving, less source-intensive procedures. With regard to enforcement, selectivity is also the major instrument of increased efficiency. Our special teams of inspectors, equipped with detector dogs and the best possible intelligence and analysis we can muster, are searching only high risk cargo. These teams have already established significant cost-benefit ratios with noteworthy narcotics seizures from cargo and baggage. We intend to expand their use, expertise, and the equipment available to them.

Passenger processing

Customs processed more than 300 million persons entering the United States in fiscal 1982, of which almost 30 million were air passengers. Although air passengers constitute only about 10 percent of the total number of persons entering the country, they require a higher than proportionate share of Customs resources because of the constraints of time and space in their processing. The problem is particularly acute because of the "peaking" phenomenon at airports and the lag in expanding facilities to meet the growing workload.

To meet these greater demands and insure that this rapidly growing workload is efficiently accommodated, both in terms of facilitation and enforcement, Customs has developed new approaches.

We are tailoring our processing system to the physical configuration and threat level of each airport and introducing a system similar to the traditional Red/Green system generally used at European Airports. Whatever form of Red/Green system is most effective in a particular airport, that is the system we will install. We anticipate implementation of a Red/Green processing system at many of our major airports. Our basic operating assumption is that the vast majority of passengers are honest and can select the particular inspection needed. Different versions of the Red/Green system are being tested in Houston and O'Hare Airports. A Red/Green system is already operating at Miami International Airport and it will be implemented at JFK in March 1983.

The enforcement aspects of passenger processing are being reinforced by training inspectors in new observational techniques, development of walk-through narcotic detection devices, passport "readers," and other similar innovations. Moreover, these new techniques will be very useful in our special responsibility of handling security and visitor processing for the Summer Olympic Games in 1984 at Los Angeles.

Olympics

Customs is requesting \$3.6 million and 31 average positions (staff-years) in fiscal year 1984 to facilitate and protect the many foreign visitors expected to attend and participate in the Summer Olympic Games in Los Angeles. It assuredly will be a great event and Customs intends to do its part in seeing to it that no unexpected activities disrupt the Games.

Customs will be implementing an integrated operation encompassing passenger and cargo processing, security and law enforcement, including inspectors, patrol officers, special agents, and intelligence specialists. All foreign visitors and participants, as well as the equipment they bring, will be processed by Customs through various ports of entry. It is projected that the majority of visitors and equipment will arrive at Los Angeles International Airport, although other major ports of entry will be impacted as well.

Customs concern is to insure that the additional workload does not result in facilitation or security problems at Los Angeles, or any other port. The security threat to the arriving visitors, participants and inspection personnel is heightened because of past world-wide attempts of international terrorist groups to target events like the Olympics, bringing notoriety to themselves and their causes. It is estimated that Los Angeles will experience an additional 15-20 percent workload during the normally

heavy summer tourist season. Customs expects J.F.K., San Francisco, Chicago, Miami, Honolulu and Houston to have 10-15 percent increases in passenger traffic.

Customs plans to provide sufficient manpower and equipment to insure orderly passenger flow, with minimal delay, while maintaining the best possible enforcement security. An additional 303 Customs officers will be detailed to impacted airports and other locations. Communications and security capabilities will be enhanced and helicopters will assist in surveillance operations. Our full range of security devices will be employed to screen passengers so that no weapons or explosives enter the country.

Cargo processing

Application of selectivity procedures is ripe for the cargo processing area. To accomplish this we are expanding existing cargo selectivity and introducing full-scale automation to cargo processing systems. I would now like to discuss several systems which have been specifically designed to facilitate the flow of cargo while maintaining an effective enforcement.

In cargo processing, the most significant innovation has been the expanded and enhanced Automated Cargo Clearance and Enforcement Processing Technique (ACCEPT) system. Rigorous system testing during fiscal year 1982 showed that regulatory and enforcement efforts could be improved and cargo expedited by intensively examining only selected shipments identified by automated intelligence as high risk.

Customs ACCEPT efforts in fiscal year 1983 include conversion to a central-site computer, and expansion to 10 major ports. At the same time, a manual version of the system, previously developed for use at small to medium-sized ports, will be installed at 12 additional locations. The enforcement aspects of ACCEPT were also strengthened by its "marriage" to Customs Automated Cargo Transaction Intelligence System (CACTIS) which provides background data on each shipment.

In the future, ACCEPT is to be incorporated into a larger automated commercial system, which will control processing of cargo from its arrival at the docks or airports until release to the importer. The system is currently in development on a modular basis. Until that system can be implemented, expansion of ACCEPT as a stand-alone system will continue at major ports. In addition, a number of other initiatives will be pursued to further streamline the entire cargo system.

Contraband enforcement teams

The new Contraband Enforcement Teams are reinforcing the traditional inspectional routine. These Teams, ranging in size from 2 to 20 officers, gather and disseminate intelligence perform input document review and analysis and search suspect cargo. Whenever violations are detected, merchandise, drugs, contraband, and items in violation of currency reporting and export laws are seized. Team capabilities will be bolstered by combining their search efforts for drugs in cargo with those of the Canine Teams.

TARIFF AND TRADE

Customs Tariff and Trade Program is responsible for appraisement, classification, duty assessment and collection on entries of imported merchandise, as mandated in the Tariff Act of 1930. Related and equally important functions include verification of import statistics; administering national trade policy by monitoring quotas, steel import restrictions, various trade agreements; as well as enforcing merchandise admissibility for over 40 other Federal agencies and 400 related laws.

We intend to reform and improve the full range of tariff and trade operations and carefully review the current role of the import specialist in the processing of entries. Our goal is to reduce the burden on the importer, especially his costs of doing business with Customs, while insuring that Customs maintains required services as resources decline and the volume of merchandise imports increases. These innovations are already underway or are in the planning stage. I am including a brief description of these innovations in order to give you some measure of depth and breadth of the challenge we are facing over the next two years.

Automation and centralized appraisement

Centralizing merchandise appraisement in fewer locations is a major innovation for increasing productivity and maintaining service with a reduced staff. Furthermore, centralization will enhance planned automation, which can be cost-effective only when large volumes must be processed, and assist in implementing by-pass and post-audit systems. These approaches are the core innovations for this system.

Whatever the final configuration of duty assessment locations, centralization does not mean an end to Customs presence, nor any curtailment of our service to the public. The ports not included in the centralized list are not being closed. Inspectors and other Customs support staff will remain in every port, only import specialists will be relocated.

Furthermore, entry papers will still be filed at the port of arrival. Under centralization, these papers will simply be processed at another location. The presence, or absence of an import specialist at any particular port will not affect the initial Customs review of these documents. Similarly, centralization will not delay merchandise being released to importers or entered into or withdrawn from either Foreign Trade Zones or Customs bonded warehouses. These and all other Customs activities at the port will proceed without disruption.

Maximizing automation capabilities

A corollary development to centralized appraisalment is the preparation of a fully integrated and automated data base to meet Customs and trade community requirements for entry processing, entry examination, cargo release, duty collection, and liquidation. Many of our current manual and automated entry processing functions have evolved as independent activities within the Customs Service and are not integrated into a single system. The automated system, as we now envision it, will interface the broker community, source data, and Customs processing procedures.

Automated interface with the broker computers is a key feature of the system. Currently, about sixty percent of the entry summaries presented to Customs, are prepared on broker computers, that number is expected to grow to 75 percent by 1986. Customs views this as a unique opportunity for both the trade and Customs to work together. Electronic interchange of entry data between us has been successfully pilot tested for over two years. By fiscal year 1984, five Customs ports will be processing eleven percent of Customs total entry summary workload by the Automated Broker Interface (ABI). The continued expansion of ABI will facilitate the implementation of Customs commitment for streamlined processing and the development of a "paperless entry" based on a post audit capability.

Selectivity criteria for both cargo examination and import specialist review will be maintained in a common data base. The system which will be fully operational in fiscal year 1984, will be capable of identifying the degree of review required by the import specialist. Random sampling will maintain system integrity.

Finally, in these times of limited resources, each agency involved with collecting funds must devise the most efficient means for enhancing debt collections, cash management, and cash flow. This goal is precisely what Customs is striving for in this program. Customs is exploring a variety of systems and is testing new approaches for speeding up debt collections and cash flow. In fact, new cash flow procedures will assure that estimated duty payments will be in the bank within a day after collection. Several proposals for improving debt collection are under consideration, but at this time no decisions have been reached. Commercial fraud teams also will be operating to insure that evasion of duties is held to a minimum.

I believe these innovations, and perhaps others, will pay increasing benefits in the future and will be the means for eliminating unnecessary paperwork, simplifying processing methods, and, best of all, making the importation of goods and payments of duties a more businesslike operation.

TACTICAL INTERDICTION

Customs Tactical Interdiction Program was organized to detect and apprehend smugglers operating between the ports of entry, generally those areas where a significant percentage of today's drug smuggling occurs. Customs maintains a highly mobile land, sea, and air tactical enforcement force and tailored to changing smuggling patterns. Customs tactical units have introduced new operational approaches, equipment, and technology to control and reduce smuggler options for choosing the method, time, and location for crossing our borders.

Our principal tactical interdiction forces are stationed at land, sea, and air ports of entry, and supported by airplanes, helicopters, and boats. Primary emphasis, in the past several years, has been the Southeast Border, where massive amounts of drugs enter the country, and associated large flows of currency enter and leave daily to finance this international drug trafficking. Customs in cooperation with the Coast Guard and the Drug Enforcement Administration, has implemented a series of joint interdiction operations at these critical smuggling border areas. As a result, during fiscal year 1982, seizures in which Customs Tactical Interdiction Program

was involved amounted to more than \$5 billion, or almost \$5 million worth of contraband per Officer.

This Administration is committed to fighting crime and we in Customs are in a unique position to contribute since drugs have become a major illegal and untaxed revenue source for crime syndicates around the country. Internally, in order to insure a more effective effort, I realigned the Customs field enforcement organization. Now, the various enforcement elements are working together and our programs are integrated at all management levels.

Current efforts

Customs Tactical Interdiction Program conducts a variety of traditional enforcement operations such as surveillances, patrols, intelligence-gathering, monitoring sensors, examinations of passengers and crew members, special integrated enforcement efforts, and vessel and aircraft searches. To combat smuggling by vessels, the Customs Marine Interdiction Program operates 110 boats, ranging in size from 14 to 57 feet and stationed at 49 high-risk locations. A new marine module, concept patterned after the successful Patrol Air Program concept and utilizing a command and control center, will be tested during a 6-month trial scheduled for May 1983. A major facet of this enhanced marine module will be a Servicewide plan for upgrading the entire vessel fleet. Replacements in the fleet will occur in stages as resources are available. Exchange/sale provisions and the traditional seizure/forfeiture routes will be used.

A major interdiction problem for the Marine Program is the "mothership", which is a large fishing or ocean-going vessel hovering offshore and unloading large amounts of marijuana. These "motherships" come from source areas with multi-ton supplies of marijuana, and head either directly for the United States or for rendezvous points where the marijuana is either unloaded at cache sites or off-loaded to smaller boats for runs to locations along the shoreline. Intelligence reports indicate that large-scale smuggling by vessel, while still very active in the southeast, is increasing along the West Coast, Middle Atlantic, and New England coastal areas.

Some measure of the success of our efforts are the outstanding seizures achieved. During FY 1982, the Marine Interdiction Program was responsible for some 4,000 narcotics and non-narcotic seizures, which included 2,600 pounds of cocaine, and in conjunction with the Coast Guard, over 3.3 million pounds of marijuana, as well as 2,400 arrests.

A prime concern of the U.S. Customs Service has been the effectiveness of our Air Interdiction Program as a deterrent against the smuggling of narcotics and contraband by private aircraft, a threat that has dramatically increased over the past several years. In fiscal year 1981, the value of narcotics and dangerous drugs seized in the Customs Air Program amounted to \$745 million—an increase of 88 percent over 1980, and five fold over 1979. Seizures during fiscal year 1982 are valued at over \$1.2 billion—an increase of over 60 percent compared to the previous year.

In an effort to most effectively respond to this serious problem, Customs air operations use an up-dated strategy. This strategy, a "module" concept, is now in place in Florida. By concentrating air personnel and equipment in a high-threat area and using them in conformance with the new detection, interception, and tracking strategy, it has been shown that significant results can be achieved. In addition, because of your continued interest in Customs achieving the most effective air interdiction program, I have brought on a consultant to review our current plans and approaches, and to provide us with recommendations for developing the most up-to-date air program.

Customs has invested much of its air enforcement resources to combat the smuggling of narcotics and dangerous drugs into Florida. These efforts were intensified in support of the Vice President's Task Force. Most gratifyingly, the present enforcement posture in Florida had deterred the flow of contraband. However, as expected, continued intensive operations in Florida and the assistance of Department of Defense equipment, now available because of the relaxed Posse Comitatus restrictions, are forcing smugglers to shift operations to the Gulf and Southwest Borders. Also, I wish to thank Chairman, Congressman Glenn L. English, Committee on Government Operations, for outstanding assistance in obtaining equipment by Customs in its interdiction efforts.

A recent seizure in Santa Rosa, New Mexico lends strong support to the reality of the shift in smuggling. Smugglers attempted to airdrop 214 pounds of cocaine packed in duffel bags from a private plane to confederates on the ground. Only the timely intervention of enforcement units prevented the drugs from reaching their destination.

In order to meet this threat, we are proposing the implementation of a second air module for operational use at other critical air smuggling locations. The air module is an example of the Administrations use of the new capabilities resulting from the recently enacted exceptions to the Posse Comitatus Act. Our request for \$18.3 million is to establish just such a mobile air module. Included in the request is the full panoply of equipment for an air module, including two high speed aircraft and an airborne radar platform which will form the basic detection and tracking capability. The remaining funds will be used for the supporting communications, low-flyer detection net, mobile radar, unattended beacon alert sensor system, and a life support module to provide living quarters for the personnel operating the system. The module will be mobile and probably will be initially stationed in the Southwest. Later, on an as needed basis, the module could be shifted to the Gulf Coast. In conjunction with the module in Florida, which must be maintained there to insure continued protection, we believe the Southern border can be provided sufficient protection to significantly raise the risk for air smugglers, and perhaps eventually discourage major smuggling groups.

INVESTIGATIONS

The Customs Service investigates violations of Customs and related laws. Included in this broad mandate are currency, neutrality, fraud, organized crime, white collar crime, smuggling, cargo theft, and wildlife violations. In accomplishing these investigative tasks, during the past year, several major enforcement objective were emphasized.

Operation El Dorado

Our investigative attack on criminal organizations under the provisions of the Bank Secrecy Act and through their financial transactions, Operation El Dorado, has paid excellent dividends in terms of its impact on the largest smuggling groups operating in this country. Using multi-agency investigative and prosecutorial terms, Operation El Dorado, operates under the leadership of the local U.S. Attorney. It is currently active in Miami, Los Angeles, Houston and New York—cities with large-scale currency movements and in the forefront of top-level drug trafficking and money laundering.

Our Treasury Financial Law Enforcement Center (TFLEC) which came into full operation in January 1982, is supporting the nationwide Operation El Dorado and Operation Greenback, our south Florida version, which also includes IRS, DEA, and the Office of the U.S. Attorney. The Center is analyzing financial characteristics of criminal markets and assisting in developing usable strategies for exploiting criminal financial business practices. Needless to say, the Center also is the source of tailored intelligence, both domestic and foreign, developed and adapted for the investigative field units.

On a national basis, Operation El Dorado resulted in the indictment of 197 individuals, and over \$30 million in currency has been seized. While civil penalties under the currency penalty provisions exceed \$33 million, the related jeopardy tax assessments by IRS against these criminals exceeds \$112 million. Recoveries realized by the Government through this initiative far exceed its costs. Customs is planning for the expansion of Operation El Dorado to Philadelphia and Chicago. New task forces will be formed in other cities as criminal cash flow and/or laundering activities are identified.

Operation Exodus

Operation Exodus was established during fiscal year 1982. Seizures at numerous ports of aircraft parts, communications electronic equipment, computer parts, classified defense items, and lasers indicate the extent and complexity of the problems Customs confronts. In addition, and equally serious, is the illegal transmission of technical data on research, development, and manufacturing. Our job is not only to detect these shipments, but also to punish the individual violators; and ultimately, if we are to be successful, discourage these shadowy activities of domestic manufacturers, overseas intermediaries, and foreign operatives. To meet these objectives, the wholehearted support of American industry is required.

The \$10 million expansion requested in fiscal year 1984 will permit Customs to respond to the sophisticated tactics of the violators. In addition to equipment, the funds will allow Customs to implement wide-ranging operations, directed to specific products, manufacturers, and geographic locations. The sophisticated equipment will become the means for conducting long-range investigations, serving as the basis for

strong criminal cases and raising the prosecution and conviction rate against top-level violators.

By the end of fiscal year 1982, Exodus had accounted for 765 seizures, valued at \$55 million, of critical technology. Some 150 violators were arrested and currently 45 indictments are pending.

Operation Florida

I am proud to inform you of the excellent response by the entire Customs Service to the President's call to form a multi-agency task force for controlling the flow of drugs into this country through southern Florida. Working on a priority basis, all functional groups contributed to the planning and implementation of Operation Florida, which moved into its operational phase in March 1982. Customs contribution of Special Agents, Tactical Interdiction Officers, Inspectors and support personnel represented about 80 percent of the staffing strength of the entire operation. By all accounts, Operation Florida has successfully disrupted and deterred major smuggling activities along the Florida coast, particularly those involving private aircraft.

To date, Customs personnel assigned to the Task Force have provided a concentrated and aggressive interdiction effort. Intensive investigations have resulted in the disruption and successful prosecution of major drug smuggling leaders. Operation Florida has produced more than 800 arrests and almost 3,000 pounds of cocaine seized.

Presidential drug task force initiative

Responding to the growing crime problem, a Presidential Drug Task Force initiative was established this year and is now being implemented throughout the country. Initially, Drug Task Forces will be operating at 12 high crime locations. Customs will participate with other Federal Law Enforcement Agencies in these task forces. As now envisioned, Customs will primarily conduct financial, internal conspiracy and interdiction/smuggling investigations. The financial investigations will focus on large-scale smuggling groups responsible for the laundering of large sums of money. We are requesting \$15,881,000 and 225 average positions (special agents and support personnel) to join with other Federal Agencies in assuring the success of this initiative, which we believe is required to meet this President's goal of disrupting organized crime throughout the country. The requested fiscal year 1984 funds will permit continued expansion of the program.

Drug interdiction

The primary operational activities of these city Task Forces will not be directed to preventing the illegal importation of dangerous substances across our borders. However, based on Customs recent experience in the Operation Florida Task Force, drug interdiction can be successfully integrated into the operational approach. Operation Florida was an outstanding example of a successful approach to the problems of illegal importation of dangerous substance. Although the emphasis of the twelve Task Forces critical and essential to the fight against narcotics related crime, we feel that more must be done along the lines of the Florida approach in order to fulfill our mission of preventing illegal importations and to round out an overall effective narcotics enforcement program.

Fraud emphasis

Over the past year, Customs has recorded several major accomplishments in the difficult areas of civil and criminal fraud. Our Special Agents were successful in two highly publicized Volkswagen and Mitsui cases, which resulted in \$37,500,000 collected for the Government. During the past year, the Fraud Program returned over \$54 million in revenues that would have been otherwise lost to the Government. Looking to FY 1984, we hope to build on past successes, targeting major civil and criminal violations—with an end-product of high-level arrests and a return of multi-million dollar revenues lost to the Government.

INTERNATIONAL COOPERATION

Customs is very active in the international arena and is committed to improving enforcement against international drug traffickers and the facilitation and standardization of international trade and travel. During the past decade, an international systems of nomenclature for international trade has been our goal. Under the auspices of the Harmonized System Committee of the Customs Cooperation Council, we have undertaken, in response to private business and government interests, the

development of a comparable international classification for Customs tariffs, international trade statistics, and the facilitation of goods.

Our reorganized international operations, now integrated under a single International Affairs Office, has been active in the areas of technical assistance, the Customs Cooperation Council (CCC), and Customs bilateral agreements. For several years, Customs has provided technical assistance and training, on a reimbursable basis, to foreign governments in cooperation with the Department of State. Jamaica, Haiti, Liberia, Jordan, and Saudi Arabia are recent examples of assistance in enhancing or modernizing of their Services. We are planning to expand both technical assistance, particularly in the areas of trade policy, and in enforcement training. An increasing emphasis is now directed to providing valuation training to developing countries, which should assist American exports.

Our participation is the work of the CCC as well as the implementation of Customs bilateral agreements has brought tangible benefits to both American business and international trade. Customs enjoys close bilateral ties with foreign Customs administration important to our trade and border drug interdiction. In some cases, we have negotiated formal Customs assistance agreements with key countries in order to institute a formal base of assistance. Currently, we have assistance agreements with Austria, France, Germany and Mexico. Consideration is being given to additional agreements with Italy, Spain, Canada, Japan, Great Britain, and the European community. In this vein of international cooperation, we have submitted the Kyoto Convention to the Senate for their approval. This convention, which would simplify customs entry procedures internationally, has been signed by many countries. If our participation is rectified, it will augment our position as a leader and innovator among the nations of the world.

RESEARCH AND DEVELOPMENT

I would like to take a moment to provide you with a brief description of Customs research and development efforts, which I believe are essential for effective enforcement operations against today's sophisticated smuggler and the highly complex technical problems encountered in our other activities. In support of the obviously long-term needs for developing new technical applications, Customs is requesting in fiscal year 1984 authorization for no-year funding for its R&D activities.

Modern technology is needed to improve the effectiveness of our interdiction and investigative efforts; to facilitate the flow of passengers, cargo and conveyances; and to improve productivity by reducing costs and introducing new work methods. It is the responsibility of our Research and Development Program to introduce new applications of modern technology by developing equipment for meeting unique needs, by identifying commercial military equipment useful to our mission, and by assisting field personnel in the use of this equipment.

Significant benefits will accrue in enforcement and facilitation from the new airport system for automatically reading U.S. passports and its automatic referral to available violator data bases. We are working with the Immigration and Naturalization Service and the State Department on developing these passport readers. At the land borders a similar system for license plates of arriving vehicles is in development. Detecting narcotics in vehicles and passengers will increase, we believe, as a result of our present R&D efforts to apply gamma radiation in hand-held detectors. Technical improvements in our cargo screening also are in development. Vapor detectors installed in walk-through configurations at airports should provide similar assistance to passenger processing. Operation EXODUS will benefit from new tagging systems to detecting unlicensed exportations of critical technology and from tracking systems to monitor the location of unauthorized shipments. In addition, several important projects are directed toward improving our detection of incoming smuggler aircraft more efficiently.

CONCLUSION

In closing, I wish to reiterate that Customs basic mission is the collection of revenue and enforcement of Customs and related laws. Customs must fulfill this mission in a dynamic environment, important elements of which include the traveling public, the trade community, American business and the general public. The activities of Customs in fulfilling its responsibilities call for increasingly sophisticated operational and enforcement techniques and the application of a wide variety of skills and disciplines.

Consistent with Administration determination to crack down on crime and strengthen the economy, Customs will play an increasingly important role. In fiscal year 1982, Customs began a series of new law enforcement initiatives and strength-

ened all its ongoing programs. To increase effectiveness, additional resources were allocated to law enforcement programs and new approaches were developed and implemented to meet specific problems. My goal this year, Fiscal Year 1983, is to "fine tune" the operations of the law enforcement programs and bolster their capabilities as new opportunities for effective action occurs. In essence, we will support successful programs and cutback on those that are not productive.

Furthermore, in Fiscal Year 1983, Customs will begin a major reform of its commercial processing of merchandise and introduce administrative improvements in its programs and organizational structure. Wherever possible, we intend to introduce more efficient and selective approaches, making full use of automation, reduced paperwork and rapid processing techniques. As I described these efforts earlier, we will be working closely with the importing community to insure that the final operating system meets their needs. Similarly, we will be introducing efficiencies in administrative support throughout Customs. Streamlined administrative support for operational programs is our goal. We are currently reviewing all administrative functions in order to eliminate excessive overhead and duplicative activities.

I believe the strategy presented here is the direction in which Customs must move today and in the future. Current indications are that drug seizures will increase and major trafficking will be disrupted. Our fraud efforts will assure increasing revenues. As to our efforts to protect the national security, illegal exports of critical technology to Eastern bloc countries must be cutback sufficiently so they are no longer a threat. Overall productivity and efficiency will increase as paperwork is reduced. We believe the systems already implemented and on the drawing boards will improve passenger and cargo processing.

I have presented an extensive blueprint of improvements we initiated last year or will be implementing this year. In FY 1984, we should begin to see the completion of these efforts. Many of these innovations will be fully operating and producing successful results by next year. I will be working with the Congress on ways for Customs to do a better job. At times, I will be presenting new approaches and proposals for reorganizing our field structure or for consolidating various functions. Efficiency, economy, and increased productivity will be the key objectives in determining these reorganizations.

Although Customs is reducing its overall workforce, I still intend to make real progress on achieving my priorities of maintaining a strong enforcement posture, improved cost-effectiveness, better service, and providing the American public with a modernized Customs Service.

This concludes my introductory statement. We are available to discuss the detail of the request and answer your questions and those of the Subcommittee Members.

Chairman GIBBONS. Thank you, Mr. von Raab. The way we will proceed here is, after I have a few questions, we will go to Mr. Pease and then Mr. Frenzel, then Mr. Schulze, and then to our fellow cochairman, Mr. Bonker, here, since we are having a joint hearing at this stage.

Mr. von Raab, I realize you have not been on the job a real long time, and so I do not want you to take anything I say as a reflection upon you or upon your agency, but the way we look at this, it looks like Treasury is taking care of the IRS, and is taking care of all of its own people, and increasing its budget, and it is cutting the heck out of you, which means that we are going to have piled up people at the airports, we are going to have international trade shorted on its servicing, and we are going to have more and more problems in the area of contraband, such as in narcotics smuggling.

Now, in real terms, how much has your budget been cut? We figure you are going to lose at least 1,750 Customs inspectors.

Mr. VON RAAB. Well, we feel that we will probably have to run a RIF of somewhere around 1,700 people.

Chairman GIBBONS. You are going to fire that many, 1,700 people?

Mr. VON RAAB. That would be the number that we would RIF. The numbers would fall primarily in the inspection and control area, somewhere around 900.

Chairman GIBBONS. I am not going to sermonize at this point, but I really feel the urge to do it. I realize you are operating at overtime levels, and now you are going to have to fire 1,700 people. I do not see how you are going to do it, Mr. von Raab, without a serious penalty to commerce, or without a serious penalty to drug enforcement and things of that sort.

I think that is almost enough to shock me out of my complacency, if I had any when we started this hearing. I can remember last year when we sat here and talked, and we finally came to the conclusion that you were operating so many people at overtime that really if you went back to single time for all of your employees you would have to hire some 4,500 additional people. Is that in the area?

Mr. VON RAAB. I do not remember any calculation of that. In fact, there may have been one done, but I am not aware of it.

Chairman GIBBONS. Well, what it looks like is we are going to be short about 6,000 people, between 5,000 and 6,000, well, maybe close to 7,000 people in your agency. And Customs is not that large anyway. I do not know how in the world we are going to man the borders. The people want the borders manned. They are not that anxious to pay their taxes, but they want other people to pay their taxes.

Mr. VON RAAB. There are some areas within the Customs Service in which some redeployment of resources would probably be helpful.

Chairman GIBBONS. Well, how are you going to do it? Tell me how you are going to do it.

Mr. VON RAAB. There are a whole series of programs that will be designed to bring us down to the number that we are requesting. We hope to reduce a number of positions through our effort to centralize appraisalment locations. We expect to be able to save somewhere around 150 positions by doing that.

Chairman GIBBONS. What is that going to add to the time that it takes you to handle these appraisements?

Mr. VON RAAB. I believe that centralized appraisalment will actually improve service. I think there is no question but that there is an unnecessary number of people who are processing these entries, and it could be handled better by a fewer number of people.

Chairman GIBBONS. Well, have you tried it anywhere? Has it been tried anywhere?

Mr. VON RAAB. Yes, sir. As a matter of fact, I would like Deputy Commissioner De Angelus to comment briefly on that.

Chairman GIBBONS. Yes, sir. Go ahead, Mr. De Angelus.

Mr. DE ANGELUS. Mr. Chairman, centralized appraisalment is something we have been working on for several years in a proposed stage, and have begun to move to in 1982, where we centralized five places, among them Perth Amboy and Albany, N.Y., admittedly small places. If you note, the Customs workload since 1976 has increased tremendously, while our staff has not. We have done this through means such as centralizing appraisalment, by being more selective in the paperwork that we do process, by getting greater specialization, by bringing together import specialists who handle a narrower area of the Tariff Act, and therefore can be more productive.

We expect in 1984, coupled with our new automated commercial system, that we will be able to be even more selective and have a greater specialization on the part of our national import specialists and those whom we centralize so that they can be more productive, and in effect be more efficient handling larger numbers of entries in highly specialized areas.

Chairman GIBBONS. Well, do you plan to limit the number of ports of entry that we have in the United States?

Mr. DE ANGELUS. No; that is a major misconception that unfortunately caused some problem in the continuing resolution. Importers and shippers will clear their shipments just as they do now. If it takes them 2 hours to get a shipment cleared in Milwaukee, it will take them 2 hours under the centralized system. Under the centralized system, after the entry is submitted to Customs, which under current law is 10 days or more after the shipment has actually cleared and been released to the importer, that entry, the paperwork then internal to Customs, rather than being processed in the local port, is processed at a centralized point.

There is no, in our perception, no adverse effect at all on the shipper or on the importer. His goods are released to him just as they are now.

Chairman GIBBONS. What impact is that going to have on contraband, and similar things?

Mr. DE ANGELUS. Again, this is another internal management move and Commissioner von Raab is strongly behind it. It does not reduce our inspectors, our agents, our patrol officers on the line. It is merely an internal move in centralizing import specialists who do not have a direct line role in the enforcement area. They do work in the fraud area by their review, and post audit review of the entries submitted. So we believe it will have actually no adverse effect whatsoever on our enforcement effort.

Chairman GIBBONS. I hope you all are right, but I am afraid you are dreaming. I just do not see that much improvement down the line. You are not a big agency anyway, but you are an important agency, and collect about 10 billion dollars' worth of revenue a year, as I recall, and you provide most of the police function as far as interception of contraband is concerned, and now you have got a new duty, or I should not say a new duty, but an additional emphasis on the duty you have had to monitor exports.

I do not see it in the reduction of personnel. As I harken back to the same theme, last year we sat here and we came to the conclusion that if you took all of your people off of overtime and we gave you more flexibility in that area, that you would have to hire about 4,000 or 4,500 additional people. Now you tell me you are going to fire 1,700 more people, and I do not see anything but greater and greater overtime, or more and more holes in the net, and I am fishing around for you all to come up with an explanation.

Can you do all of this by automation? Can you cut down these regional headquarters? What success are you having in cutting down the regional headquarters?

Mr. VON RAAB. Well, let me just comment briefly on your previous question, and that is, irrespective of the number of employees that the Customs Service would be permitted to hire, there are a number of program areas in which we think our job could be done

better by a restructuring, and one of those would be centralized appraisal.

Certainly the centralization aspect of it we would like to follow up with your committee under any circumstances. Whether there are fewer or more people in those centralized areas is another question. We personally believe that it can be done with fewer people and no adverse impact. The same is the case with certain other administrative savings coming out of regional and district consolidation.

Last year we consolidated the Baltimore and San Francisco regions, which resulted in a savings of approximately 150 customs positions that were used in those regions. Because our budget was not significantly reduced, we redeployed those resources into other areas of customs activities. Specifically, 91 of those positions were used to support Operation Florida, and approximately 40 were used to supplement our inspectional workforce in New York.

I think that a good look at the regional consolidations that took place between Baltimore and Boston and San Francisco and Los Angeles will show that in personnel terms, commercial efficiencies, and enforcement effectiveness, and savings to the Federal Government, it was a very, very good experience both for the enforcement community, the commercial community, and the Federal Government.

If you would like, I could ask Mr. De Angelus to comment in a little more detail on the actual results of those two regional consolidations.

Chairman GIBBONS: Well, as you know, this committee has advocated closing down of these regional offices, but you have not had much success. We have been advocating it for about 6 years, and you have consolidated two. Is that right? How many more have we got to go?

Mr. VON RAAB. There are now seven regions left.

Chairman GIBBONS. How low do you want to go?

Mr. VON RAAB. We feel that there is room to continue to reduce the remaining regions, but we also feel that any further consolidation must be done with much more congressional involvement in the consolidation that takes place, and by that I mean congressional backing.

Chairman GIBBONS. You are never going to get that from the Congress. You know that. I can see you going to Mr. Long and saying, we are going to close down New Orleans and consolidate it, and about that time you would end up with all kinds of riders on every bill that came through there that you could never close down New Orleans. In fact, you would probably end up expanding it.

And you ran into a hornet's nest down in Miami. You ran into a hornet's nest out in San Francisco. You cannot get cooperation from Congress on that. You will get a little cooperation from this committee. It is something that needs to be done, but it is going to require more determination on your part, Mr. von Raab, to do it.

Mr. VON RAAB. Well, I hope you saw a fair amount of determination on our part to close the last two regions. We are more than happy to display whatever determination is necessary, and you will see that.

Chairman GIBBONS. I am going to be watching for New Orleans. [General laughter.]

Mr. VON RAAB. We have talked to some members of your staff, Frank Phifer and Dave Rohr, on this matter, and we will be sitting down with the chairmen of our other three committees, Appropriations and Authorizations, in order to explain to them the need to do this. But you have been at this longer than I have, in terms of the political considerations in trying to move into this, but we are going to display all of the determination we can short of getting letters sent over to the Treasury Department asking for all of us to be removed for this effort.

Chairman GIBBONS. I am glad to see Mr. Battard here, who was so kind to take us through the Miami regional operation last fall, and I was very impressed with what they are doing there, and I noticed that you say that we have settled the pileup of passengers at Miami now. Now, is that because of the fine action of those people there, or is it because the number of passengers has dropped off because of the international situation?

Mr. VON RAAB. Well, the number of passengers has dropped off, but that factor is not a major factor. I think the major factor basically was a pulling together by the Customs Service in the last few months and the development by the local officials of a system that works, and not a system that was designed by headquarters personnel who were not familiar with the operational problems in that area.

I would like to ask Mr. Battard to comment on that.

Chairman GIBBONS. Sure, go right ahead.

Mr. BATTARD. Well, as the Commissioner said, the customs inspectors themselves participated in the design of the system, and we are now processing people in an average time of less than 12 minutes, and that is from the time, as you may recall, Mr. Chairman, when they get down at the end of that carousel, and includes the time that they wait for their baggage, they are processed through customs and exit the customs area.

In addition, our seizures are up since November 15, when we put this in, approximately 46 percent.

Chairman GIBBONS. Did you get rid of those baggage handlers in there?

Mr. BATTARD. We have not eliminated the baggage handlers yet, but we do have a study that we conducted on the advantages of the carts, and we plan to present that to the port authority.

Chairman GIBBONS. Now, one of the things that I had suggested doing was that in this authorization bill, or in the ADAP authorization bill, we could amend it to require the concurrence of Customs on the design of international facilities at airports. What do you think of that?

Mr. VON RAAB. I think it is a good idea. We have tried to take a position over the past year that we will consider many different ways of processing passengers at an airport. We have said the most critical aspect of any passenger processing system is the physical facility. You just cannot take an inadequate physical facility and put in a rational processing system. As a matter of fact, I would say that having hardened our position in that respect, we have received more cooperation from the airport authorities, and I think

that recent modifications that have been made to airports have proved that if you do have a facility that Customs can work with, that the system will work better.

And Houston, Chicago, and recently, and surprisingly enough, the IAB at Kennedy, we have been working very closely with the airport authorities and have received surprising amounts of praise for improved Customs efforts. But part of it is due to a willingness on the part of the airport authorities themselves to make the physical modifications that are necessary to do the same thing.

So, I think that airport passenger processing in this country as far as Customs is concerned is looking up. I am just waiting for the day that one of my friends comes up to me and says that he was able to get through an airport faster. I have heard a lot of comments to that effect, but no one has actually said that to me. So maybe one day that will happen.

Chairman GIBBONS. Well, I want to end my interrogation temporarily here before I go to Exodus, and I will wait for other members to develop Exodus questions before I start on that, but by saying that, I recently got a letter of commendation from my local port people for the customs people for the fine job they are doing in managing the ship passengers that are now flocking in and out of the Port of Tampa, and I appreciate the fine work that the people are doing there in the Tampa area. So, as I say, I am just principally worried about how you are going to get along with losing as many people as you are going to have to lose, and the shortage of people you already have, and the tremendous overtime, and the greater flow of passengers as the economy recovers, and the greater flow of goods as the economy recovers, and all of those things added to Exodus, I do not see how you are going to do it with the budget you have here.

Mr. VON RAAB. We are relying very heavily on different ways of doing business. I cannot assure you 100 percent that we are going to be able to make the modifications to our systems that will be in place, and be working well quickly enough in order to meet the reductions that are being proposed here. However, we are going to attempt to do it, and I think we will be able to succeed.

Chairman GIBBONS. Let me say I have two written requests for questions from Mr. Jenkins and Mr. Heftel, and we will submit those questions to you, and you may answer them for the record.

[The questions and answers follow:]

Question. Section 506 of H.R. 7158, the Fiscal Year 1983 Treasury Appropriations Act, as passed by the House, contains language prohibiting the Customs Service from expending any funds to supervise transfers of duty-free merchandise purchased from a person who has not been granted a concession to operate a duty-free sales store by the appropriate State, local or other governmental authority. Section 507 of S. 2916, as reported by the Senate Appropriations Committee, contains an identical prohibition. Is it Customs' understanding that this prohibition has been given effect by Public Law 97-377, the Continuing Appropriations Resolution for Fiscal Year 1983?

Answer. Yes. Although the language of the resolution was somewhat confusing, it is our view that the prohibition in the Appropriations bills is given effect by the continuing resolution. In order to implement the prohibition we sent a telex on February 14 to our regional offices with the language of the prohibition and instructions to implement it. Our district offices will notify duty-free shops that they have 30 days to comply with the prohibition. We shall be pleased to keep this subcommittee informed of any action we take in this matter.

Question. Does the prohibition contained in the Fiscal Year 1983 Treasury Appropriations Act apply to all non-concessionaire duty-free sales facilities, including those already operating as of December 21, 1982, as well as those which commence operation after that date?

Answer. The language of the resolution appears to apply to all duty-free locations; therefore, we have proceeded under the premise that Congress intended to include the restrictions to both presently operating stores and to new applications for duty-free stores.

Question. How does the prohibition contained in the Fiscal Year 1983 Treasury Appropriations Act affect the Customs Service's implementation of Customs Policy Statement 3200-06, issued on November 13, 1981?

Answer. As of this date we have received no indication that this causes problems with the three-mile limit according to Customs Policy Statement 3200-06. The resolution makes an additional restriction which requires that the sales establishment be in the same port of entry as the exit point facility. We are aware of at least one location that takes orders for merchandise and collects money for such merchandise 75 miles south of a port of entry while delivery is made from a warehouse within the three-mile limit.

Question. Please describe with specificity the substance of the policy and guidelines that the Customs Service has adopted or will adopt in order to implement the prohibition contained in the Fiscal Year 1983 Treasury Appropriations Act. Please include in your description an explanation of whether District Directors will be instructed not to approve the establishment of duty-free shop bonded facilities by non-concessionaires; how Customs will identify those persons who have been granted concessions; whether Customs will act by circular, policy statement or formal rulemaking; and the date by which such implementation will be completed.

Answer. We have provided our field offices with a telegram which requires that proprietors provide written evidence to district directors that they have either been granted a concession, approval, or there is a lack of disapproval of their operation. District directors have been instructed to notify Headquarters of those proprietors that are unable to comply, complete with reasons for such non-compliance.

District directors will be instructed not to approve the establishment of stores or the continuation of export operations without evidence from the concessionaires, if such concessionaires exist. Customs will implement the provisions of the resolution by circular. We will include the prohibitions in a rulemaking for duty-free stores for which a regulatory Work Plan is already under consideration.

The target date for complete implementation, barring court action to the contrary, is April 1, 1983.

Question. Will the policies that the Customs Service adopts to implement the prohibition contained in the Fiscal Year 1983 Treasury Appropriations Act remain in effect beyond September 30, 1983, the date after which the Continuing Appropriations Resolution expires?

Answer. The policies adopted to implement the prohibitions in the resolution will expire on September 30, 1983, unless further resolution extends them. We will amend the Customs Regulations to include this prohibition; however, we doubt that it would have adequate force to withstand a legal challenge without a specific prohibition in the law.

Question. Please furnish the Subcommittee with a copy of the Customs Service's latest draft proposal for implementing the prohibition contained in the Fiscal Year 1983 Treasury Appropriations Act.

Answer. Copy attached.

ORIGINATING OFFICE IC:C

DISTRIBUTION

POLICIES &
PROCEDURES
MANUAL**MANUAL
SUPPLEMENT**

NUMBER 3265-

ISSUE DATE

EXPIRES

SUBJECT: APPROVAL OF DUTY-FREE STORE OPERATIONS

References: Section 101(a)(1), Joint Resolution enacted December 21, 1982

1. PURPOSE

To implement restrictions on the approval of duty-free store operations.

2. BACKGROUND

Section 101(a)(1) of the Joint Resolution enacted on December 21, 1982, continuing Customs appropriation for Fiscal Year 1983 provides that monies appropriated thereunder will be subject to the authority and restriction found in the underlying appropriations bills. Section 507 of both underlying Senate Bill 2916 and House Bill 7158 provide that:

"No part of the funds made available by this Act shall be available for expenses of supervising the transfer between any Customs bonded warehouse and an exit point of any item of duty-free or tax-free merchandise intended for exportation on behalf of an individual departing from the United States, unless the warehouse proprietor can demonstrate that such individual purchased such merchandise--

- (1) from a person who has been granted a concession to operate a duty-free sales store by the State, local or other governmental authority that operates or administers the exit point facility, and
- (2) at a sales establishment located within the same port or port of entry (as defined in 19 C.F.R. section 101.1) as that exit point facility."

3. ACTION

- A. District Directors shall require, as a condition of approval of any application for a bonded warehouse that is to operate as a duty-free store, that the following written statements be provided by the applicant:

Customs Form 232-C (06-02-80)



CUSTOMS ISSUANCE SYSTEM

DEPARTMENT OF THE TREASURY U.S. CUSTOMS SERVICE
GPO 544 219

- (1) A statement signed by a competent official of the state, local, or governmental authority that the duty-free store has been granted a concession by that authority; and
- (2) A statement signed by the applicant that no sales will be made by the applicant to individuals for exportation except at a sales establishment(s) located within the same port of entry as the exit point facility administered or operated by the authority that signed the foregoing written statement.

No application will be approved without these statements, except as provided in paragraph 3.C.(3).

- B. District Directors shall require the written statements provided in paragraph 3.A. to be submitted also by all existing duty-free store operators, and shall not supervise the exportation of any goods purchased by individuals from duty-free stores that do not provide the required statements or that do not comply with the requirements of the law. The exportation of any goods without Customs supervision shall be deemed a default in the export condition of the appropriate entry or exportation bond. Where blanket approval has already been given for withdrawal for exportation, the goods may be exported only as cargo, or withdrawn for vessel or aircraft supply use, or destroyed. If the goods have not already been withdrawn for exportation, they may be withdrawn for any purpose authorized by law.
- C. In applying the provisions of this issuance, District Directors shall be guided by the following interpretations and understandings:
 - (1) The restrictions apply to any duty-free store in respect to which Customs supervises transfer between the warehouse and the exit point facility, whether the supervision is conducted physically at, or enroute to, the exit point facility; through approvals of applications or signing sales tickets; through spot checks or audits; or any other act requiring the time of a Customs officer.
 - (2) The term "state, local, or other governmental authority" is deemed to apply to any subdivision or instrumentality of a state, local, or other governmental organization, including any Federal, international, and regional governmental organizations, or organizations administered jointly by governmental and nongovernmental bodies using public funds. It includes such instrumentalities as bridge and tunnel authorities, airport authorities, or highway commissions that administer or control traffic through an exit point facility, so long as they are governmental authorities.

- (3) The restrictions do not apply where there is no state, local, or other governmental authority that administers or operates the exit point. When a state, local, or other governmental authority administers or operates the exit point, but does not have a formal written procedure for granting concessions, a statement that it approves, or has no objection to, the operation shall be provided by the applicant in lieu of a statement that a concession has been granted.
- (4) The "exit point facility" is the thoroughfare, route, or other accessway through which individuals transport goods purchased in a duty-free store to a point beyond which transportation of the goods outside the United States is assured and diversion back into U.S. commerce without passing through a U.S. Customs inspection station is a practical impossibility.
- (5) The restrictions do not apply to duty-free goods served by international carriers to their passengers on board aircraft, trains, vessels, and similar conveyances under 19 USC 1309, 1317, and 1446.

4. EXPIRATION DATE

This Manual Supplement will expire upon incorporation into P&PM 3265.

Assistant Commissioner
Office of Inspection and Control

Question. I understand that the Customs Service wants to abolish the bonding of Customs entries. Is this true?

Answer. No, Customs is neither planning to, nor wants to abolish its bonding requirements.

Consistent with the Administration's philosophy of improving governmental services at reduced cost levels, the Customs Service has accomplished such mission effective and cost efficient projects as regional consolidation, laboratory consolidation and the audit/inspection approach to controlling bonded warehouse merchandise. Among the many other Customs mission effective and cost efficient projects currently under development is the new bond system.

The new bond system project was initiated several years ago and can best be described as a modernization effort to simplify and reduce the bonding complexities for the importing trade community via the elimination of 50 plus different bond forms with one simple form. Additionally, the new bond structure and its supporting automated control system will expedite Customs bond approval procedures and enhance its bond information retrieval capabilities. The new system, once implemented, will provide an annual \$11,000,000 savings to the private sector and increase the effectiveness of Customs efforts in cargo facilitation, revenue collection and protection, cash flow management, and enforcement.

Our intent with respect to the new bonding system was published in the Federal Register as an advance notice of proposed rulemaking on May 26, 1981. A proposed notice of rulemaking is currently in the review process and we anticipate its publication in the Federal Register during the month of March 1983.

Another initiative which is in the exploratory stage, involves the possible elimination of requiring a surety on every bond. The cost of premiums by the surety industry is substantial and is ultimately passed on to the consumer. Our intent here is to determine whether the additional security of a surety is necessary, reasonable and warranted when compared to the cost it imposes on the private sector of the economy. Again, this initiative is only exploratory and is in no way connected with the new bond system.

Question. How do you propose to protect the revenue, facilitate the flow of commerce and guarantee compliance with the 400 some laws the Customs Service administers for 40 other federal agencies?

Answer. The new bond system when fully implemented, will be a fully automated on-line system. The record retrieval capabilities and speed inherent in such a modern day system will expedite entry documentation flow and thus facilitate the movement of cargo. Additionally, the record and information storage capabilities of the system when linked with bond limits, will enhance our revenue protection efforts. The system will automatically check for bond sufficiency and immediately notify the cognizant Customs officer the bond amount is adequate, approaching its limit or is exceeded. The immediate availability of this information will permit the officer to review the facts and make a determination if an increased bond amount is required. The ability to immediately respond to such situations will greatly enhance our revenue protection and enforcement capabilities.

Question. There are principally four constituencies who benefit: the Treasury, importers, consumers and other federal agencies. Have any of them complained about the current bonding system?

Answer. Over the years complaints have probably been received from all four constituencies. The fact that the current system is manual, requires the use of 50 plus different types of bond forms and generates errors, forms the basis for the complaints. Customs has recognized the inadequacies of the current system and is confident the new simplified system once implemented will not only eliminate the complaints but actually result in an \$11 million annual savings to the importing community.

Question. As I understand the current bonding system, sureties act both as a guarantor and as a collector of overdue accounts receivables of Customs. That means, I think, that sureties locate the importer, explain the assessment, obtain supporting documentation when necessary, and take necessary actions, both informal and legal, to assure that the importer meets his obligations to the government.

Answer. That is not correct. Sureties do not act as a collection agency for Customs. The sureties guarantee performance. If the surety compensates Customs due to the default of an importer, the surety will proceed against the importer in a civil action to be reimbursed.

Question. By suggesting a replacement for the bonding system, aren't you talking about Customs adding an entire new apparatus, at considerable costs and additional manpower, to perform a function the sureties now do at no cost to the government?

Answer. No, the new bond system will have absolutely no effect on functions currently performed by sureties. The new automated and simplified bond system will replace the current ineffective system but will not require Customs to perform any more functions than we do today. The big plus, from a Customs standpoint, is that the new system will permit us to carry out our current responsibilities in a more effective and cost efficient manner.

Question. What steps has Customs taken since the 1978 GAO report to prevent loss of revenue to the Government when term bonds are written to cover more than one entry at one port and General Term Bonds are written to cover all entries at all ports?

Answer. The planned new automated bond system, we believe, will correct these current system problems. The new system will include bond limits which will warn us if the dollar amount is approaching exhaustion or is exceeded. The availability of this information, not possible under the current system, will permit Customs to initiate immediate action to have the bond amount appropriately increased.

Question. In its agency comments on the 1978 GAO report Customs said that it was exploring the possibility of replacing the bonding system with a fee schedule. What is the status of the fee schedule program?

Answer. Customs does not have a fee schedule program underway. The current bond system revision project under Treasury review does not involve fee schedules.

Question. Under what authority would Customs eliminate the bonding system?

Answer. Customs does not intend to eliminate the bonding system. We are designing a new modern day system to replace the archaic and ineffective system which currently exists. The supporting regulations to permit the installation of the new system are being changed. The regulation changes will be published in the Federal Register as a Notice of Proposed Rulemaking during the month of March 1983.

Question. Under what authority would Customs establish a fee schedule for importers to process their entries through Customs?

Answer. As you are perhaps aware, during the past year, Customs has been developing proposals which would establish fees or "processing charges" for a wide spectrum of services which Customs provides to the traveling and importing community.

These charges would cover such areas as processing the merchandise and entries, processing passengers, and processing conveyances.

The "fee schedule" you refer to for processing entries would, of course, be included under this proposal. It should be strongly noted, however, that Customs does not have the authority to levy these processing charges. Assuming concurrence by the Office of Management and Budget, which has not to date been forthcoming, a legislative package would be submitted to the Congress for consideration.

The entire matter of establishing Customs processing charges is still a matter of internal correspondence between the Department of the Treasury and OMB.

Question. If Customs eliminates the bonding system, how will it collect additional duties from importers who go out of business before paying their additional duties?

Answer. Customs is not eliminating the bonding system. We are designating a new automated system to replace the current system. The new system will still require sureties on bonds and thus our ability to collect duties from importers who go out of business will be unaffected.

Our exploratory initiative to study the possibility of perhaps eliminating the necessity of requiring a surety on each and every bond filed with Customs will identify and consider alternative methods to deal with bankruptcy situations. It is extremely important, however, that we all understand this exploratory initiative is separate and distant from the new bond system. As designed, the new bond system will still require sureties on bonds.

Question. Bills that remain unpaid by sureties for 120 days are identified on the computerized Demand on Surety by symbol 3*. At the end of December 1982, what was the total number of 3* bills and their dollar value?

Answer. The total number of 3* bills was 19,209. The total dollar value of these bills was \$80,121,147.

Question. What was the total number of bills and the dollar value of bills appearing as 3* items on which collection was suspended as a result of various court actions?

Answer. The total number of 3* bills was 2,317. The total dollar value of these bills was \$30,015,655. Of this total, \$27,983,622 pertains to the Japanese TV anti-dumping duty case.

Question. What was the total number of bills and the dollar value of bills appearing as 3* items on which collection was suspended because a protest had been filed?

Answer. The total number of 3* bills was 7,523. The total dollar value of these bills was \$24,494,669.

Question. What was the number of bills and dollar value breakdown between protests filed by importers and protests filed by sureties?

Answer. The number of bills was 7,523. (Importers 6563, Sureties 960.) The dollar value of bills protested was \$24,494,669. (Importers \$21,643,567, Sureties \$2,851,102.)

Question. What was the total number of bills and dollar value of bills appearing as 3* items on which Customs could not collect because copies of bonds and entries had not been furnished to sureties?

Answer. The number of 3* bills was 5,356. The total dollar value of these bills was \$15,429,234.

Question. At a time when such basic industries as steel are suffering from extremely depressed conditions, with unfairly traded imports a major contributing factor, we are concerned that the reported reorganization of thirteen import specialist units would reduce the number of import specialists available to monitor such critical imports. Can you give specific assurances that steel import procedures will be unaffected by any organizational changes contemplated?

Answer. The planned centralized duty assessment system will have no adverse effect on steel import procedures. Of the 13 locations being centralized only five have measurable steel importations: Jacksonville, Port Everglades, Eagle Pass, Toledo, and Sweetgrass. All 13 locations account for about 2 percent of all steel importations.

Statistics for the last 6 months show the following shipments in the 13 locations:

Port	Shipments	Tonnage
Pittsburgh	1	130
Greenville/Spartansburg	0	0
Charlotte	12	126
Jacksonville	104	28,725
Eagle Pass	157	11,989
San Diego	2	39
Great Falls	2	40

Port	Shipments	Tonnage
Sweetgrass.....	106	4,099
Toledo.....	31	35,304
Port Everglades.....	59	12,210
Port.....	0	0
Wichita.....	0	0
Phoenix.....	0	0

Furthermore, the fact that these locations are centralized does not mean that the processing of these entries will be adversely affected. On the contrary, since the import specialists will transfer together with their functions to a centralized location, they will be able to increase their technical knowledge of their commodity lines. This increased expertise will enable the import specialist to more effectively monitor these critical imports.

Question. Can you tell us whether there has been a hiring freeze affecting steel import specialists for the past two years in various ports as has been unofficially reported?

Answer. It is true that there have been hiring restrictions of different kinds in the past 2 years. These restrictions do not apply to steel import specialists only. All import specialists have been covered by these restrictions. The restrictions did not mean that import specialist vacancies could not be filled but that certain conditions had to be met before the vacancies could be filled.

In order to manage more effectively and to meet constantly increasing workload, Customs has determined that coupling centralized appraisalment with automated commercial processing offers the best solution to conserving scarce manpower. Consequently, we have frozen import specialist hiring in order to minimize relocation of personnel during the centralization process.

Question. Can you indicate what the reduction in the number of import specialists handling steel products has been as a result of attrition? Has such reduction been offset by any new or planned hiring? If not, why?

Answer. There are four locations that have a net loss of import specialists handling steel: New Orleans, 2; Los Angeles, 1; Chicago, 3; and Houston, 1.

In order to adjust, commodity lines have been realigned so that the same amount of work can be effectively handled with less resources.

In order to manage more effectively and to meet constantly increasing workload, Customs has determined that coupling centralized appraisalment with automated commercial processing offers the best solution to conserving scarce manpower. Consequently, we have frozen import specialist hiring in order to minimize relocation of personnel during the centralization process.

Question. I have become increasingly more concerned with reports of apparel items coming into the United States from foreign countries which are either not labeled as to country or origin or are labeled in a nonconspicuous place in the garment. In either event, no label or an inconspicuous label is a violation of U.S. domestic law. In order to be certain in my own mind, I am interested in learning to what extent your agency has responsibility for enforcement of domestic law in this instance, and also any comments you might have as to what you feel is the effectiveness of any enforcement authority that you have under domestic law.

Answer. 19 U.S.C. 1499 provides the Customs Service with general authority to insure that imported products are in compliance with all laws of the United States. However, primary enforcement authority relative to labeling of textiles and apparel rests with the Federal Trade Commission. The Customs Service, while relying on FTC for guidance applicable to the specific labeling requirements, has sufficient authority under 19 CFR 11.12 to insure proper labeling on imported goods before release from Customs custody or through redelivery demand if discovered after leaving Customs control.

Chairman GIBBONS. Mr. Pease.

Mr. PEASE. Thank you, Mr. Chairman.

Mr. von Raab, I share the chairman's incredulity that you can manage to improve your service with fewer people. We all hope that that will be the case. Could you tell me again concisely how you propose to do that, to maintain your existing level of service or improve it with 2,000 fewer people?

Mr. VON RAAB. The reductions that will add up to 2,000 will be 156 in the centralization of appraisement, 114 in the revision to the administration of our bonded warehouses, 170 in organizational changes involving districts and regions, 192 in general reduction of administrative overhead, 918 on the inspection and control area which are inspectors and their support, and 450 in the tariff and trade area involving largely import specialists.

I think the number that probably concerns you most in that area would be the 918 inspectors or inspectional positions, and it is our hope that we will be able to effect those reductions by moving inspectors out of those areas in which they are not as necessary as they would be in another area, and through such approaches as the so-called Houston model seaport or red/green systems, just different ways of doing business at the docks and in the airports with respect to both cargo and passengers.

Now, I could try to be more specific, but that generally is the approach that we are taking.

Mr. PEASE. How many inspectors do you have totally?

Mr. VON RAAB. About 4,500. I was trying to give you an exact number.

Mr. PEASE. 4,500? That is close enough.

Mr. VON RAAB. I can give you an exact number, 4,381 as of January 8.

Mr. PEASE. So you are going to cut your inspector staff by over 20 percent and still maintain service?

Mr. VON RAAB. Yes, sir. That is the proposal here.

Mr. PEASE. What about your appraisal staff? How many people do you have doing appraisals?

Mr. VON RAAB. 1,000.

Mr. PEASE. 1,000, and you are cutting 114 out of that?

Mr. VON RAAB. No, more than that.

Mr. PEASE. 156, right?

Mr. VON RAAB. And some of the 450 are also import specialists that I referred to when discussing trade selectivity.

Mr. PEASE. Mr. von Raab, do you have a lot of people working overtime among Customs inspectors?

Mr. VON RAAB. Yes, sir.

Mr. PEASE. Are there any who are not working on overtime?

Mr. VON RAAB. I would assume there are a few, but probably very few. They have the right to turn down overtime, but they must then give up the money that they would have otherwise received from it.

Mr. PEASE. I would think that your red/green systems and your other efficiencies at the best would allow you to cut down the overtime for your existing people. I know it is hard to see how you could cut down the overtime for your existing people plus eliminate 900 positions just from increased efficiencies, or do you not intend to cut down on your overtime?

Mr. VON RAAB. If we were to move to the reductions here, the overtime would probably increase.

Mr. PEASE. What is the purpose of cutting out people if you have to increase your overtime?

Mr. VON RAAB. The purpose of cutting out people is to reduce permanent recurring costs to the Federal Government.

Mr. PEASE. Mr. von Raab, I must say that this admission on your part strikes me as an effort either by you and your agency to put the best light on restrictions imposed on you from outside, namely, OMB, or they strike me as being the result of an ideolog who believes that the world is flat and that you can accomplish something despite the facts to the contrary, sort of the supply-side theory of 1983. Does either one of these situations apply in your case?

Mr. VON RAAB. Well, you would have to make the judgment about an ideolog. The submission reflects the allowance provided to Customs by OMB.

Mr. PEASE. Are these the figures that you submitted to OMB?

Mr. VON RAAB. No, sir, they are not.

Mr. PEASE. Did you ask for more people in your submission to OMB than you got?

Mr. VON RAAB. Well, I personally do not make the submission to OMB. I make a submission to the Department. But the Customs submission that went to OMB requested just about 13,000 positions.

Mr. PEASE. Very well. Well, I must say, you do a good job of putting the best face on an inadequate submission.

Mr. VON RAAB. Thank you very much. [General laughter.]

Mr. PEASE. And I do not envy you your position. Maybe we ought to get Brother Stockman up here to sit down with you and help you go through this process.

Mr. FRENZEL. He is on his honeymoon. He is not available. [General laughter.]

Mr. PEASE. His honeymoon ended in 1981. [General laughter.]

Let me ask you a couple of specific questions. Are you or any of your people familiar with the item 801 process under the Trade Schedule or the Tariff Schedule?

Mr. VON RAAB. Do you mean Tariff Schedule No. 801?

Mr. PEASE. I am sorry, No. 807.

Mr. VON RAAB. Yes, I am more or less familiar with it, as much as one can be after 18 months.

Mr. PEASE. I will ask the question that I asked of the Trade Commission before. What is the percentage of the total use of 807 which is devoted to automobiles? Do you have any idea?

Mr. DE ANGELUS. Mr. Pease, we have a separate agreement on automobiles with Canada, the Automotive Trade Products Act of 1965, so consequently that is not a heavy area for 807. Automobiles generally is not a heavy area for 807.

Mr. VON RAAB. We can get you more exact numbers if you would like them.

Mr. PEASE. Would you do that, please?

Mr. VON RAAB. Sure.

[The information follows:]

Question. What is the percentage of the total use of 807 which is devoted to automobiles?

Answer. Approximately 36 percent of the 2.3 million automobiles imported into the United States in Calendar Year 1981 contained American components subject to reduced duty under item 807 TSUS.

The value of the American components contained in the imported passenger vehicles was slightly less than 1 percent of their total value and was less than ½ percent of the value of all automobiles imported in 1981.

In Calendar Year 1981, the value of the American components contained in imported passenger vehicles represents 1.29 percent of the value of all American com-

ponents entered under 807. The number of shipments of autos entitled to 807 represents 2.39 percent of all shipments entitled to 807.

	<i>Amount</i>
Autos imported in 1981.....	2,345,277
Autos imported under 807.....	845,670
Value of all auto imports.....	\$13,099,976,384
807 value (autos).....	\$55,286,766
807 value (all imports).....	\$4,283,298,562
807 auto shipments.....	8,390
807 shipments.....	350,733

Mr. PEASE. Your people do the inspection job on 807 articles. Is that right?

Mr. VON RAAB. That is correct.

Mr. PEASE. How do you go about doing that? Where is it done? What types of people do it?

Mr. VON RAAB. There are two inspections that take place, if you would. One is of the physical goods as they return to the country, and the second is of the documents that accompany those physical goods. The physical goods are inspected by inspectors. The documents are inspected by import specialists. And the actual inspection results from those two exercises taking place, and then if either or the other has any questions that result, they will speak to each other.

For example, if the documents do not make a lot of sense, then the import specialist may call the inspector and ask him or her to do a more complete investigation of a particular issue that might arise from the documents. At the same time that the inspector sees something wrong, he will notify the import specialist that he does not think a certain amount of work that is indicated on the documents has been done, and then he will notify the import specialist, and if it becomes a more serious matter, we would then call in our actual investigators or agents to look into the issue.

Mr. PEASE. What about technologically sophisticated items like electronic equipment? Are you having trouble getting people who are competent to do that?

Mr. VON RAAB. I am not aware of problems that we have in that area. At least it has never been raised to me, and I have never heard it discussed, so on the basis of that, I would say that it certainly is not a critical problem in the Customs Service. I am sure that there is a tremendous competition in the market for those people, but that problem has not been brought to my attention.

Mr. PEASE. It is my understanding that items brought in under item 807 can in certain instances be labeled "Made in America," even though they may not be made in America. Is that correct?

Mr. DE ANGELUS. I am not certain about the technical details on that, Mr. Pease, but many of the articles, it is strictly an assembly abroad, so that the articles in effect are U.S. origin. We will have to in our formal reply give you more detail on that, but these articles, they might be pieces of cloth which are made in the United States and abroad and sewn together abroad, or two parts which are made in the United States and assembled abroad. I would have to check what our rules are for where the breakdown is, if it becomes a foreign article.

[The information follows:]

Question. What criteria is used to determine if an item is made in the United States?

Answer. A product of the United States is an article manufactured within the Customs territory of the United States and may consist wholly of United States components or materials, of United States and foreign components or materials, or wholly of foreign components or materials. If the article consists wholly or partly of foreign components or materials, the manufacturing process must be such that the foreign component or materials have been substantially transformed into a new and different article, or have been merged into a new and different article.

This criteria for determining if an item is a product of the United States follows the general rule which is used in country of origin determinations. Although there are other rules which are used in certain circumstances, particularly where preferential duty treatment is provided for, the more general rule is applied in making determinations of United States origin.

Mr. VON RAAB. Item 807 is a particularly big matter on the Mexican border, and there it is not, I suppose, impossible that the pieces could come back put together. The pieces might say, "Made in the U.S.A." on them. I do not know.

Mr. PEASE. What about item 806.3 articles? Is there any difference with those?

Mr. VON RAAB. I need a book.

Mr. DE ANGELUS. I believe that refers to parts of machinery which are—

Mr. PEASE. Further processed once they come back to the United States.

Mr. DE ANGELUS. And again, I do not know what our practice is on the marking of those articles. Both of those provisions came into use after I left the field, and I am not familiar with the details.

Mr. VON RAAB. If you would like, we could get you a brief statement of what the marking requirements are with respect to all aspects of 806 and 807. That might be more helpful.

Mr. PEASE. Would it be within the jurisdiction of the Customs Service to decide which items can be and cannot be marked "Made in America"?

Mr. VON RAAB. Well, within our statutory limitations, yes. We typically make decisions as to how things must and need not be marked. For example, some things are so small it is hard to mark them. And then what do you do about them? So, yes, we make those decisions, I will not say every day, but regularly during the year, within whatever statutory restrictions that are placed upon us.

Mr. PEASE. I am concerned not so much about the size, but about the percentage of American made value added versus foreign made, and as I understand it, then, you do make that determination, and an American company that wants to label something "Made in America" has to get approval from the Customs Service to do so? Is that correct?

Mr. VON RAAB. Well, I think it is really a little simpler than that. In other words, when something comes into the United States, the Customs Service looks at its markings, and if the markings do not comply with the laws and regulations under which we are operating, they will be refused entry, or a penalty will be assessed, or they will be required to mark them, or something, so it is really a decision made at the border more than it is some other type of agreement.

Mr. PEASE. Is it your impression that that decision relates to the amount of value added in the United States versus overseas?

Mr. VON RAAB. I am not sure exactly when "Made in U.S.A." has to come off and when it can stay on. I just do not know the answer to that. There may not be an answer, in which case we may have to clarify the issue. I am not really sure of that. But we will let you know.

Mr. PEASE. That is the point that I am interested in. If you could answer that, I would be most grateful.

[The information follows:]

Question. How does the Customs Service determine the value added content of items brought into the United States: (a) Under item 807? (B) From overseas foreign trade zone?

Answer. For purposes of item 807.00, Customs does not determine the "value added content" of items brought into the United States. Rather, an imported product brought into the United States under item 807.00 is subject to duty on the full value of the product, including the cost of labor, materials, general expenses, and profit, less the cost or value of the U.S. components.

We assume that this question refers to foreign trade zones in the United States. Foreign merchandise brought into a foreign trade zone takes a nonprivileged status unless the importer claims privilege. Nonprivileged merchandise is valued on its landed costs, less freight and insurance from the place of exportation to the foreign trade zone. Privileged merchandise is appraised in its condition when privilege is claimed, in accordance with the provisions of the value statute. That is, privileged merchandise is appraised in the same manner as any other imported merchandise. Where foreign merchandise is further processed or assembled in the foreign trade zone, the costs of such processing or assembly are not dutiable.

Mr. PEASE. Thank you very much.

Chairman GIBBONS. Mr. Frenzel.

Mr. FRENZEL. Thank you, Mr. Chairman.

Thank you, Commissioner. Like the chairman, I have a very strong interest in your Exodus program, and while you admit or you claim that it is one of the great successes of the Service, in my judgment it has been one of the greatest restraints to American foreign trade that we have ever indulged in. However, I am going to hold back on my questions, like the chairman did, until Congressman Bonker has a chance to review with you at least part of that area, since he is going to have the major load in reworking the laws that may govern.

What worries me about the budget that you have submitted to us, Mr. Commissioner, is, it looks to me like the same old game, where you bring us a reduced budget and you say you are going to reduce customs inspectors, and when we get into the business of appropriating, putting in supplementals and so on, we will stick on, nobody is going to tolerate the loss of their valuable inspectors in their region, and we are going to be right back where we started from.

I noticed last year you brought in a nice tight budget. Before long in the second supplemental we had an extra \$20 million for Exodus programs, which seemed to use, or at least the justification seemed to be used mostly for Exodus. Now, are you going to do that to us again?

Mr. VON RAAB. I honestly do not know what is going to happen. I do not know what major extraordinary events will take place during 1984 that might cause a supplemental. Certainly in terms of

what we can foresee at this point, the moneys that are being requested in this budget will be sufficient.

Mr. FRENZEL. OK. We do not have a lot of detail on your budget, Mr. Commissioner, but you do seem to indicate that you are going to reduce your work force by 15 percent, that is, from 13,500 down to 11,000, more or less, and yet your budget submission is up by a little bit. Where is the extra money?

Mr. VON RAAB. The extra money is in about six programs. About \$3.5 million for funding to handle the Olympics, \$10 million for Exodus, \$18 million for a second air module, which is basically an organization of a small air unit that would be used in a particular region of the country, \$2.5 million for additional moneys for electronic data processing, half a million for an improvement in the toxic substance control program, and close to \$16 million for the drug task force initiative.

Mr. FRENZEL. I see, and all of those programs are going to be carried on without any people? They are all automatic programs?

Mr. VON RAAB. There is a request for 225 positions for the drug task force.

Mr. FRENZEL. All the rest are going to be done with 2,000 less personnel, but you are going to spend more money for them? There must be a lot of equipment in there or something.

Mr. VON RAAB. Yes, sir. Equipment, travel, overtime.

Mr. FRENZEL. Well, travel, that is an interesting item. Your travel budget seems to be up about 63 percent.

Mr. VON RAAB. Yes, sir, it went way up this year.

Mr. FRENZEL. And the reason for that is?

Mr. VON RAAB. I am sorry?

Mr. FRENZEL. The reason for the increase in the travel budget?

Mr. VON RAAB. Largely an increase in our enforcement programs, a need to have people sent from one place to the other for temporary duty. I would say that the increase is attributable entirely to operational activities. There is no substantial, if any, increase in administrative travel.

Mr. FRENZEL. Mr. Commissioner, when you were up here before complaining about the overtime gap, you said you had to do this, you had to have an inordinate amount of travel to send your inspectors around here and there to pick up where somebody had timed out or dollared out on the overtime gap, and so we thought your travel was fairly high before. Now you are going to have more travel for these people?

Mr. VON RAAB. These would not be inspectors. These would be agents.

Mr. FRENZEL. What does an agent do?

Mr. VON RAAB. The customary disciplines in the Customs Service are inspectors, who literally inspect goods or passengers. We then have import specialists, who are sort of commodity experts, who inspect documents, review documents on cargo. We have patrol officers, who are your uniformed or in some cases not uniformed, but they are basically the physical support for our enforcement activities, and we then have agents who are Customs-trained criminal investigators, and those are the individuals for whom most of this money will be spent.

Mr. FRENZEL. I see, we are going to have more agents and less inspectors?

Mr. VON RAAB. That is true.

Mr. FRENZEL. That is interesting. How about performance? Mr. Gibbons indicated that he had been through Miami. I suppose if there is any port about which I get complaints about performance of customs, it is the port of Miami. This committee went down there officially 4 or 5 years ago. We were told then that the problems were physical, and that well, there were two problems, the physical premises and the peaking of inbound arrivals, whether they be by ship or by airplane.

Have you done anything to improve that? Is anything different about the peaking problem? Is anything different about the physical problems? There is nothing different about the complaints.

Mr. VON RAAB. As I indicated in my opening statement, I was down in Miami last week and actually met with Mr. Callahan and Mr. Travis and Mr. Brown, representing the chamber of commerce, and they were extremely complimentary of the recent changes that the Customs Service had made in the handling of passengers at Miami.

As Mr. Battard indicated, the time that it takes for passengers to pass through the Customs Service requirements is now way down to 12 to 15 minutes.

Mr. FRENZEL. Twelve to fifteen minutes per passenger, and there are 150 of them in an airplane?

Mr. VON RAAB. Bob, what is that 12 to 15 minutes?

Mr. BATTARD. No, sir, that is the time it takes an individual to get through. The total processing time for an individual is 15 minutes. It has been averaging less than 12, to be honest.

Mr. FRENZEL. OK. If I fly through Miami from any place of my choosing, and get through in 12 minutes, I will buy my own ticket, and if I do not, will you buy my ticket?

Mr. BATTARD. You will get through the Customs processing in less than 12 minutes.

Mr. VON RAAB. When you come through Miami.

Mr. DE ANGELUS. Call us ahead of time. [General laughter.]

Mr. VON RAAB. You have to do three things in Miami, as you do in most airports. First, you have to go through Immigration. You would not have to go through immigration in Miami because you are a citizen, and the Customs Service leaned on INS recently to reinstitute citizens bypass. So you would go directly to the carousel, pick up your suitcase, and then go to either a red light or a green light, depending upon whether you were going to make a declaration of goods of value which would require the payment of duty.

And what we are saying is that we have been seeing a time of 12 minutes. The problem we have got there is the problem of the baggage arrival.

Mr. FRENZEL. I agree. That is a problem, Mr. Commissioner. It is also a great variation between what you describe the process is and what the process actually is for a person going through it, because at least as recently as a couple of months ago U.S. citizens were having to have their passports checked going through that terminal.

Mr. VON RAAB. Absolutely.

Mr. FRENZEL. And that is an extra step.

Mr. VON RAAB. I think you would find that Miami passenger processing system really good now. It is an excellent system. As a matter of fact, I was at a meeting the other day in New York in which, amazingly enough, someone said that if Customs could do what it is doing in Miami and New York everywhere else in the country, passenger processing would be in great shape.

Mr. FRENZEL. My staff reminds me, Mr. Commissioner, that it is much faster than Boston, from one of our experiences up there. I want to talk about overtime. I wrote you a letter last week, and you have not obviously had time to respond to it, and I would like to have the response to those questions I put in my letter entered into this hearing record.

Chairman GIBBONS. Without objection, we will put it in.

[The questions and answers follow:]

Question. What percentage of total overtime is made up of compensatory time? What percentage of overtime in excess of the cap is compensatory time? Explain under what circumstances compensatory time is paid in lieu of overtime.

Answer. Compensatory time, which is less than 1 percent of total Customs overtime, was not used during fiscal year 1982 as earnings in excess of the cap. Compensatory time in lieu of overtime pay is authorized under the Federal Employees Pay Act of 1945 (FEPA), and is a method of compensation for some work performed by inspectors, particularly for special enforcement teams.

For fiscal year 1983, I have been granted the authority to allow employees to exceed the cap in order to prevent excessive costs or to meet emergency requirements. Thus, compensatory time may be used in an emergency for enforcement activities. Although compensatory earnings are a low percentage of the total overtime, they do represent a significant percentage of the overtime earnings of special enforcement team members. In numerous instances, the effectiveness of the teams, which are mobile strike forces formed to intercept contraband in cargo and baggage, was constrained by the overtime standing of their members. Under certain circumstances, the mobility and striking power was hampered because overtime earnings had to be checked before the team could go into action or inspectors had already earned so much they could not be used. The current statute will solve this problem.

Question. Were there any new directives or guidelines issued during fiscal year 1983 designed to achieve greater efficiency or otherwise improve the overtime system?

Answer. As a result of the new overtime provisions, especially the \$25,000 cap and waiver authority, I have issued the following management guidelines:

(1) Each manager should review staffing levels at ports where positions were added as a result of the former cap, to determine if they are still needed to process the workload. If the positions are not needed, they are to be moved to a port with greater workload requirements.

(2) Shifting inspectors from low overtime ports to perform work at high overtime ports must be eliminated. Elimination of this practice will save more than \$100,000 in travel and per diem costs.

(3) Using non-inspectional personnel as inspectors, because of the cap, must be stopped. The purpose of this new policy is to eliminate excessive training costs and to provide more efficient service to the public by using fully trained and experienced staff.

(4) Use of part-time and WAE inspector personnel should be continued. These positions have been effectively utilized to augment our regular inspector staff, have significantly reduced the overtime requirements at many ports, and have reduced inspectional costs.

Question. Are there areas where overtime costs are not now reimbursed that would provide greater efficiency if made reimbursable (not merely shifting the cost from Customs to the public, but actually providing administrative or other improvements)?

Answer. Gains in efficiency could be achieved, without merely shifting the costs to the parties receiving the service, in those special situations occurring weekdays (Monday through Saturday) between the hours of 8 a.m. and 5 p.m. Under the 1911 Act and implementing regulations Customs processing occurring during this time span cannot be considered as overtime, and therefore is non-reimbursable.

The following example illustrates the problem. At airports, we attempt to maximize the use of inspectors by establishing a basic shift to cover the majority of passenger arrivals. As an example, if the arrival pattern is most efficiently processed by a noon to 9 p.m. shift, then that is what is established. However, a problem arises when an air carrier decides to arrive between 8 a.m. and noon, for example at 10:30 a.m. If inspectors from the regular shift are used to process this flight, the government must pay the additional costs. Traditionally, in such cases, Customs will change its basic shift from noon to 9 p.m. to 10 a.m. to 7 p.m. and charge the overtime to the carriers who have been arriving after 7 p.m.

If the statute was amended to eliminate the restriction on reimbursable charges between 8 a.m. and 5 p.m., Customs could establish a more efficient utilization of its resources. By charging a reimbursable overtime fee for the flights arriving before noon, we could maintain a full shift until 9 p.m. which would provide the best service for the majority of arriving passengers.

Question. What was the cost of administering overtime in general in fiscal year 1983 (specific and detailed breakdown)? What was the cost of administering the cap (specific and detailed breakdown, including cost of transporting personnel to new locations to avoid excess payments)?

Answer. The Customs Service regular payroll accounting system includes the processing, monitoring, and control for all overtime payments, except those related to the Act of 1911. Overtime related to the Act of 1911 is controlled and processed under a separate payroll system, which includes special monitoring, computerized processing, and controls for maintaining the current overtime pay cap.

With regard to the costs for monitoring and control of "general" overtime, Customs does not maintain separate cost statistics because the overtime payments are processed as part of the regular payroll/accounting system. The system includes timekeepers, internal manual and automated processing, and computerized compilation of the payroll. For the latter task, Customs reimburses the Treasury Department \$1,080,000 for processing preparation. However, there is no separately identifiable costs for administering the overtime portion of the general payroll.

With regard to your request for the costs of administering the overtime cap, the fiscal year 1982 total was \$1,631,000, which included the costs of additional full-time inspectors, increased use of part-time personnel, Headquarters and Field management and monitoring, and travel costs. These costs are in addition to the expenditures required to maintain the regular Act of 1911 overtime system. In fiscal year 1983, we are projecting savings of \$310,000, in travel and part-time inspector costs as a result of the implementation of the new \$25,000 cap and the waiver authority granted me.

The cost of administering the overtime pay cap in fiscal year 1982 was as follows:

<i>Cost item</i>	<i>Amount</i>
Additional inspectors (74 workyears) increased use of WAE's, permanent part-timers, and temporaries.....	\$1,085,000
Headquarters' cost (3 workyears).....	131,000
Region, district and port (32 workyears) for review, maintenance, and control.....	305,000
Travel costs.....	110,000
Total	1,631,000

Question. How many individuals were paid overtime in excess of the cap during fiscal year 1983? What classification of employees were these individuals (inspectors, administrators, investigators, etc.)?

Answer. There were no overtime payments to any Customs employee in excess of the \$20,000 cap in fiscal year 1982 and none has exceeded the current fiscal year 1983 cap of \$25,000. Customs has established a comprehensive system for monitoring and controlling overtime payments. In addition, I have directed Customs managers to continually review their operations and report any individual expected to exceed the cap. Customs will submit periodic reports to the Congress on the status of our review.

Question. What was the average individual payment in overtime to those receiving payments in excess of the cap? What was the total amount of overtime paid in excess of the cap?

Answer. There were no overtime payments to any Customs employee in excess of the \$20,000 cap in fiscal year 1982. In addition, no Customs employee has earned more than the \$25,000 cap during fiscal year 1983.

Mr. FRENZEL. That will absolve you from making the reply to me. But there are some general problems of overtime. In fiscal 1982 you used almost 68 million dollars' worth of overtime. That is not 15 percent of your labor cost. That is 15 percent of your gross budget. In 1983, you projected \$74 million of overtime cost. How much do you project in this year's budget? And I cannot even remember what you are asking for. A total of \$578 million? How much of that is overtime labor?

Mr. VON RAAB. If I could, the Comptroller would like a shot at that question.

Mr. RUSSELL. The answer is \$74,307,000 is our projection for 1984.

Mr. FRENZEL. OK, which is a little less than you projected for last year. Are you meeting your last year's targets, that is, this current fiscal year, 1983?

Mr. RUSSELL. Yes.

Mr. FRENZEL. And so you are going to come in at or under \$74,226,000 for this current year, 1983?

Mr. RUSSELL. I think it is a little early for us to be sure. As of right now, we are on schedule.

Mr. FRENZEL. OK. I hope you will continue. Since you are projecting about the same thing for this year with 2,000 less employees, one can only be horror struck with what is going to happen to those 11,000 employees in terms of overtime. They are going to be inundated with it, are they not?

Mr. RUSSELL. If the 11,000 figure holds, I believe our overtime figures will have to come up.

Mr. FRENZEL. Well, you folks have been badgered by this committee forever on the subject of overtime. We do not underestimate the difficulty of the job. We understand that there are uncontrollables, but we also think that some good management would help in this situation, and you are still having such an extraordinary proportion of your labor locked into overtime. I would think that you would spend an extraordinary amount of time working on that problem in badgering American exporters on their shipments of goods abroad, and stopping 3 out of 4 shipments needlessly, spending one-half hour, rather, spending several days writing press releases about the one that you were successful with.

Is it possible? Can you tell us that you are going to do anything on overtime? Do you have any programs? Do you have any ideas? Or are we still going to do just what we did before, which is, whenever an airplane lands, we whistle out to either lucky or unlucky people, and have them run the Customs inspection?

Mr. DE ANGELUS. Mr. Frenzel, if I may, I would like to jump in on this one. We believe that it has been good management which has kept the overtime from growing at phenomenal rates. Over half our overtime, as you are aware, is reimbursed to the Customs Service by the people who require the services.

Mr. FRENZEL. I agree, and I want to interrupt at that point. I do not think that overtime becomes justifiable just because you can lay an unreasonable cost on somebody else.

Mr. DE ANGELUS. That is correct, and the kind of efficiencies that we are aiming for not only reduce the manpower according to a given process or during regular given hours, but they reduce the

manpower required after duty hours. However, and if we had not done that I think you would find it, even the reimbursable overtime would be much substantially greater than it is now. Those services again are required because someone asked for the services. There is a current GAO report, and we referred to peaking earlier, which criticizes Customs heavily for not spreading out the workload better, but it is one way that we do handle with our work force the amount of workload, which we do not control.

Mr. FRENZEL. I understand the difficulty, but I want to be assured that you guys are not simply palming off that cost on somebody else, because somebody else has to pay it, or that you are working on other things and not concentrating on the proper management of the service which is, I think, trying to reduce the overtime, trying to get some rational working hours for your employees.

Mr. DE ANGELUS. As Mr. Battard just pointed out to me, Mr. Frenzel, we have extended tours of duty when it is more economical to do so, whether or not the overtime cost is to the Government or to the importing public. If in fact we could keep three employees fully employed between 5 to 8 p.m., we extend the tour of duty, but if it works the other way, that the workload is irregular, that the time of arrivals are irregular, therefore we then shift the burden to the carrier who requires that service.

But, as Mr. Battard has pointed out, we believe we are just about at the limits of extending our personnel and hours of service, that we have done that in the most economical way.

Mr. FRENZEL. Thank you.

Mr. Chairman, I have lots more questions, but for orderly procedure, I would yield.

Chairman GIBBONS. All right, sir.

Mr. Schulze.

Mr. SCHULZE. Thank you, Mr. Chairman and Mr. Commissioner.

I agree with everything Mr. Frenzel said about the overtime. I will not go into it in depth, but I would just say amen to everything he has said.

I had the occasion to go through the Miami Airport, and maybe that is where all of the problems in the country are, in early January, and was shocked, although I must admit I had the courtesy of the port, but I had the occasion to meet with a lot of people who did not, and one of them told me that on December 3d, coming in from a South American country, there were, he said 2,000, but let's say 1,000 people backed up.

There were, out of the—what are they?—35 or 40 counters, there were maybe 13 or 14 inspectors on duty, and as the people were jammed up, an announcement came over the loudspeaker saying, we apologize for the delay, but the delay is due to Reaganomics. I wonder if you agree with that, and have personnel been cut there? And if so, apparently you did not cut the right ones.

Mr. VON RAAB. The Miami Airport right now is working very well. I hope that all of you will have a chance to see it while there is still snow on the ground up here. That particular announcement that you heard was made by the airport authority, with whom we have had lots of disagreements.

Mr. SCHULZE. The airport authority tells me that is not true, but I will let that pass.

Mr. VON RAAB. I will say that at this point in time, the airport authority has started to become very cooperative and has actually met many of their obligations that they failed to meet over the past 18 months. The particular delay to which you are referring did take place.

Unfortunately, I cannot answer for the particular delay because it took place at the Immigration counter and not at the Customs counter. We have not reduced any numbers of inspectors in Miami, in any case. We have, we believe, used the same number of inspectors more effectively. I believe if you were to go down to Miami today and speak to the individuals, who have an actual committee whose responsibility is the management of the Miami International Airport for tourism, they would tell you, as they told me just last Tuesday, that the Customs Service is doing a tremendous job down there and they have never seen it better.

Mr. SCHULZE. How many counters does Customs have?

Mr. VON RAAB. Mr. Battard can answer that a little better than I can.

Mr. BATTARD. Downstairs, we have approximately 24 that can be utilized, but those are primary counters.

Mr. SCHULZE. And how do you allot assigned personnel? How much in advance are you aware of peaking? I would think the first 2 weeks in February in that particular airport would be peak time.

Also in looking into this, I was told there were many people attending school. Is that correct?

Mr. BATTARD. Mr. Schulze, may I address that? I know the exact period you are talking about, and it was the first 3 days after New Year's. We had a heavy load—some in excess of 15,000 people arrived. Immigration has taken full responsibility for those delays. You were talking about the 13 people who were manning counters upstairs. They were Immigration officers. They have met with the committee and have given no excuses, taken full blame for it, and have agreed with the committee in Miami that they are bringing on additional resources and it won't happen again.

We, in Customs, have worked out a contingency plan with Immigration should they ever find themselves in that position again. We are ready to put in some emergency processing procedures to help bail them out. But that was strictly Immigration, those 13 people you are talking about. That is a number that has been tossed about by the Miami Herald, and they are Immigration officers. There were 34 Customs officers on duty that day.

Mr. SCHULZE. Does Customs have a school or an academy?

Mr. BATTARD. Does Customs have what, sir?

Mr. SCHULZE. A school where you train.

Mr. BATTARD. Yes, sir. We train them at Glynco.

Mr. SCHULZE. Where is that located?

Mr. VON RAAB. The Federal Law Enforcement Training Center at Glynco. It is run out of the Treasury Department. It is used to train some 49 different Federal agencies, enforcement officers.

Mr. SCHULZE. How much time do your people spend in school? Please tell me about the training process.

Mr. VON RAAB. We train all of our employees, our so-called customs officers, that is, import specialists, or inspectors or agents or patrol officers at Glynco for various periods of time. When they take over as an inspector, they spend time at Glynco on the elementary inspection course, and at various times, they would come back for specialized training, either just to renew their—

Mr. SCHULZE. That is what I would like to find out about. I don't know that we need all of this technical training, and I would like to know the period of time it takes, what is the average time that employees spend in school, and maybe they could be better utilized.

Mr. VON RAAB. I would say that the average for an inspector, or just a rough average for any customs officer, is somewhere between 5 and 8 weeks.

Mr. SCHULZE. Five and eight weeks a year?

Mr. VON RAAB. No; that is the first shot through. After that, they might come back—what—every couple of years.

Mr. RUSSELL. Every couple of years for roughly 1 week.

Mr. VON RAAB. Every couple of years for roughly a week. Now, there is a special program that is being developed. For example, recently in an effort to move people through airports more quickly, we have developed a profiling system in which we try to train inspectors how to identify possible suspects. Rather than examining everyone, they would just try to target individuals.

What we do there is take selected inspectors from around the country and put them through the course and let them go back and give some of their experience to other inspectors. So there are regularly special programmings. With the increase in our marine presence in Florida, we now have a special marine boat handling course, for example. So they are on an ad hoc basis for the most part.

If you like, we could get you a full curriculum of the Customs courses that are available.

Mr. SCHULZE. I would also like to know what portion of your budget, how much goes to schooling and how much time is spent each year in schooling.

Mr. VON RAAB. We make a payment to the Federal Law Enforcement Training Center of about \$2.5 million a year.

Mr. SCHULZE. Is that based upon the number of hours attended or the number of courses, or is that just a flat payment?

Mr. VON RAAB. It is based upon the length of courses and the resources that Glencoe must commit to those courses.

Mr. SCHULZE. It seems to me, and I realize another committee is looking into the business of consolidation of inspection, and it seems to me to make very good sense. What is your opinion?

Mr. VON RAAB. I agree with you. I think it makes very good sense to consolidate primary inspection of INS and Customs.

Mr. SCHULZE. Do you project any savings on that kind of a move?

Mr. VON RAAB. It is hard for me to project savings because I am not responsible for the budget of the Immigration and Naturalization Service, but it is my personal belief that the savings that should result from that sort of a merger should be immediately in the area of 300 to 500, and over a year should exceed that.

Mr. SCHULZE. Are you doing this in Houston? Is this correct that they are training multiple single agents?

Mr. VON RAAB. All of our inspectors and all of Immigration's inspectors are prospects for cross training. There are many installations, either on the land or at the airports, in which Immigration officers do Customs work and vice versa. For example, at San Ysidro as you pass through you might combine an Immigration officer or a Customs officer.

So apart from the statutory, budgetary, et cetera requirements to consolidate on the operating level, all you would have to do is issue a new set of shirts.

Mr. SCHULZE. Is the money that is going for the Olympics influx all to personnel or does some of that go to equipment?

Mr. RUSSELL. It is for personnel, equipment and travel. It is not full time personnel but people who will be working in support of the Olympics primarily.

Mr. SCHULZE. You are not going to add any slots out there; you are just going to send people out there?

Mr. VON RAAB. No permanent positions are being made for the Olympics. We are looking at approximately a 2-month period in which we will make some special training, identify particular individuals, send them out for that 2-month period.

Mr. SCHULZE. They will come from the service; they will not be newly hired?

Mr. VON RAAB. Depending upon how it works out, we might hire some part-time employees to handle some of the responsibility, certainly not the critical ones.

Mr. SCHULZE. In reference to the drug situation, how many drugs are actually found during the inspection process without an advance tip?

Mr. VON RAAB. Well, this is a difficult question.

Mr. SCHULZE. The reason I ask this question is because it seems to me that anybody who is wise is not going to bring a bunch of drugs in with their baggage and go through inspection. Now, if I am wrong, that is what I would like to know. It seems to me that most of it would probably come from advance tips and knowing of purchases and cooperation with the DEA and others.

Mr. VON RAAB. I would like to sit down with you some time. It is an absolutely fascinating situation as to how drugs are brought in. Basically at airports you will typically never have your class 1 or class 2, in other words, kingpin violators coming through with drugs.

However, either to meet a particular market supply need or just to make a few extra bucks, people will either bring in drugs for their own use or larger operators will run couriers in with drugs. The larger operators basically regard the couriers as disposable. I mean if they make it through, fine; if they don't, they lose their drugs and they don't care what happens to the courier.

So there is a fairly active traffic in some of the airports of the importation of drugs, particularly cocaine, and small amounts of marihuana. That would be seen most in the southern airport, particularly Miami. In the western airports, Los Angeles, San Francisco, and New York on the east, you will see a more active trade in heroin.

Now, heroin can be brought in quite easily because small amounts are so valuable. As far as whether we have prior informa-

tion on that, that is hard to say. We have prior information to some degree in that we have generic information that a particular flight is high risk or these particular kinds of people are likely to be carrying drugs. That is very helpful and very important to us.

If you don't regard that generic observational information as prior information, then I would think it is fair to say that just about 95 to 98 percent of our seizures are made without prior information. However, on the other side, that is, cargo, larger amounts of drugs, you will see more prior information because obviously if someone is bringing in 200 pounds of cocaine, there has been a much more elaborate planning going into it and therefore much more opportunity for more people to know that it is happening.

But the toughest one in the world is the guy that goes out and buys 2 pounds of cocaine for himself and brings it into the airport and no one else is involved. It is almost impossible to have any prior information on that.

Mr. SCHULZE. You say the incidence of that is fairly high?

Mr. VON RAAB. The instance of couriers is fairly high. In other words, a man operating out of Colombia wants to get 10 pounds of cocaine into the United States and he needs to deliver it within 48 hours. He will hire a poor Colombian who doesn't really understand the legalities of the situation, arrange for that individual to put it in his or her suitcase and try to bring it through. That sort of thing happens quite frequently.

Mr. SCHULZE. Are dogs used in this process?

Mr. VON RAAB. Dogs are used to sniff baggage but not while the baggage is with the passenger. They are used to sniff the baggage usually when it comes off the plane and it is on the baggage belts going up into the airport.

Mr. SCHULZE. It just seems to me that it might be a very good psychological deterrent to have a couple of men with a couple of dogs standing there as the people walk by with their baggage.

Mr. VON RAAB. I personally agree with you. There is a fairly active debate over whether it would be a good idea to have dogs in the passenger processing area, and we have up to this point decided that it is not a good idea to have dogs there. The reason is that the way dogs are trained to identify narcotics right now is they are trained to be very aggressive, and if they find a suitcase that has narcotics in it, they literally attack it and grab it and throw it around. So if someone had some narcotics or something else in his pocket, we would have a real problem with a dog grabbing his leg.

Mr. SCHULZE. I think if you had a couple of incidents, you would soon cut down the traffic pretty much. [Laughter.]

Mr. VON RAAB. I like the way you are talking, but it is tough. [Laughter.]

Mr. SCHULZE. Mr. Commissioner, I am advised that the European systems for clearance of cargo primarily related to the processing of paperwork documentation requirements and the use of computers are far superior than that utilized by domestic U.S. airports. Could you comment on this and are we looking into it?

This is the kind of thing, the direction we should be going.

Mr. VON RAAB. Well, I am not aware of the Europeans' use of computers. I spent some time in Europe. The French, German, Austrian, Czech, and the French Belgium borders do not use com-

puters there. It is pure documentation. So as far as truck traffic is concerned, there is no computerization. If anything, for an area that supposedly has a customs union, there is more throwing of paper back and forth and stamping than there is, really, at the U.S. Customs Service.

Mr. SCHULZE. How about airports?

Mr. VON RAAB. Airports. The best computerized system in the world, in my opinion, is in Tokyo. It is a great system. But what people don't realize about it is that it is a great system only for people that have their paperwork in absolutely perfect condition.

If your paperwork has got all the approvals in advance and it has everything in the right column, you will get your cargo cleared out of Norita Airport in 20 minutes. You also, interestingly enough, get your bank balance debited at the same time. That is not the case, however, for someone that one doesn't have a bank account which can be debited or who makes a seemingly careless and insignificant error.

So I think that in the perfect world the Norita system is excellent, but for the practical needs of a businessman, it is very difficult, and as a matter of fact, it is regarded as one of the barriers to trade that exist with respect to Americans. The U.S. Customs Service, on the other hand, is trying to move toward and is moving toward better processing systems.

There are two important cargo clearance seaport activities taking place right now. One is in Houston, in which we have developed a postaudit cargo clearance system. In other words, the cargo is allowed to enter and we are allowed to check it afterward, which means the cargo gets cleared very, very quickly. That is a manual system.

However, in Charleston, S.C., we actually have a situation in which all the manifests are entered electronically to the port, in this case the port authority's computer system, and all cargo is cleared there electronically.

Now, we are trying to encourage other ports to adopt the Charleston system. At the same time, we are trying to move more toward that system ourselves. So in the future I hope that we will see a combination of this expedited manual cargo system that we have in Houston and more use of the electronic system that we have in Charleston.

It is fair to say that the Customs practices in clearing cargo are archaic, but it is not just the Customs Service intransigence in changing that has continued them in their archaic way; it is also the laws under which we necessarily must operate.

Mr. SCHULZE. One final question, Mr. Commissioner. How would you categorize morale in the Customs inspectors and agents? I have heard rumors of deliberate slowdowns and that kind of thing. Are you aware of any of this, and how would you categorize it?

Mr. VON RAAB. That is a pretty difficult question for me to answer because I obviously would like to think that the morale of the Customs Service is very high, and I would like to think that it would be to some degree attributable to my being Commissioner and these other gentlemen here, their involvement in the management of the Customs Service; but with that disclaimer, I think that the morale in the Customs Service is quite high.

I spent a lot of time in the field speaking to inspectors, to agents, to patrol officers, as many as I can. I can't speak to all 13,000 of them. And at least from what they have said to me and reports that have come back, certainly the morale is very good, but I am not a very good judge of that because when I sit in my office in Washington, everyone always tells me that everything is fine, so it is often difficult to find out the bad things that are going on. But I am confident that the morale is in good shape.

Mr. SCHULZE. Thank you, Commissioner. Thank you, Mr. Chairman.

Chairman GIBBONS. Mr. Bonker.

Mr. BONKER. Mr. Chairman, I want to thank you and Mr. Frenzel for allowing me to participate in these hearings and for deferring questions on Operation Exodus, an issue of some concern to me both as it relates to the region I represent here in Congress and to the jurisdiction of the subcommittee I chair in overseeing the Customs Service and in legislating the Export Administration Act.

Mr. von Raab, your statement today contains at least two surprises for me. One is on page 4, in which you state that Customs has become the lead agency in the administration's program to block the illegal transfer of critical and high technology. Second is the revelation on the rather drastic reduction of personnel for most of your programs while you are continuing to build up and expand Operation Exodus.

Let's take the first surprise. You state that Customs is the lead agency, yet the Export Administration Act authorizes the President to impose controls on exports for foreign policy or national security reasons or for materials in scarce supply.

The Department of Commerce has the authority to administer the program. The Department of Commerce has enforcement authority. May I ask how Customs now feels that it has become the lead agency when there is no reference to the Customs Service in the Export Administration Act?

Mr. VON RAAB. Well, first, to characterize Operation Exodus, it is the physical effort to prevent the export of these physical goods. The Export Administration Act is much broader than that, and so we are not claiming to be the lead agency with respect to the Export Administration Act. It happens to be a particular exercise in support of it.

The Commerce Department, you are correct, obviously, in that they are given the enforcement responsibility under the Export Administration Act.

Mr. BONKER. Mr. von Raab, may I remind you that Customs becomes involved at the request of the Department of Commerce through regulation as it relates to seizures, but to claim that you are the lead agency when the law is so explicit about the Department of Commerce's role really dismays me.

Mr. VON RAAB. Well, I am sorry you are dismayed. Operation Exodus is a Customs exercise which is being carried out with the Commerce Department, but in terms of the personnel that are being employed in this effort and the activity on the physical interdiction side, Commerce has approximately five inspectors in New York and are only now beginning to hire investigators.

We, on the other hand, have 4,000 inspectors, and 600 investigators, all of whom are involved at one point or the other in Exodus.

Mr. BONKER. On March 1 these two subcommittees will be conducting some hearings on Operation Exodus, and perhaps when Commerce appears with you, we can straighten out this matter.

Second, the money involved. This program started with a rather modest \$8 million in fiscal year 1982. The fiscal year 1983 appropriation is \$25 million, and now you are asking for another \$10 million to purchase required surveillance vehicles, secure telephones, computer terminals, electronic surveillance equipment and tagging devices and to implement blitzes and special operations at critical points. That sounds to me more like a paramilitarily operation, and almost all of that is directed at U.S. manufacturers.

Mr. VON RAAB. That is not correct. The effort is not directed at U.S. manufacturers. The effort is directed at basically Soviet fronts within the United States who are taking U.S. goods and exporting them from the United States.

Mr. BONKER. Now, Mr. von Raab, I think we ought to be a little more candid. There is not a Soviet front operating in the United States. These inspections and seizures are directed primarily at U.S. manufacturers who are attempting to export their equipment not necessarily to the Soviet Union or Eastern Bloc countries, but also to Western countries, almost all of which are innocent, law-abiding businessmen who are attempting to deal with a very complex law. All of this equipment is going to be directed against their efforts to compete in the world economy.

Mr. VON RAAB. Well, I disagree with you. First of all, the program is not directed at U.S. manufacturers. If anything, we have tried to work with the U.S. manufacturers on the problem. Many of the U.S. manufacturers share the same concerns that we have. And as to whether there are Soviets operating in the United States trying to divert critical and other technologies to the Soviet Union and the Eastern Bloc, that is just incontrovertible.

Mr. BONKER. OK, let's look at the record, Mr. von Raab. You state on page 23 that by the end of fiscal year 1982, Exodus had accounted for 765 seizures of critical technology. Now, of that 765, how many were directed by the Department of Commerce?

Mr. VON RAAB. All of them. Oh, I'm sorry, that's not true. Some of them would have been directed by the Office of Munitions Control in the State Department.

Mr. BONKER. In other words, prior to inception of Operation Exodus, it was a normal procedure, pursuant to the Commerce Secretary's instruction to the Customs Service, that since Commerce lacked seizure authority, whenever Commerce reached a point where it was convinced that illegal shipment of cargo in violation of the Export Administration Act was taking place, that they turned this matter over to you?

Mr. VON RAAB. That is not how it works.

Mr. BONKER. Well, of the 765, how many were initiated by Commerce in sending its request to you on a matter involving seizure?

Mr. VON RAAB. They were all approved by Commerce, but as far as the initiation is concerned, I would guess that probably only three or four were initiated by Commerce. The rest would have been initiated by the Customs Service.

Mr. BONKER. Well, then we will have Commerce before us because at the staff level we have discussed this matter with Commerce and they told us that close to 300 of these seizures were requested by Commerce.

Mr. VON RAAB. Well, I hope that this will not evolve into an issue of semantics. If you would, I could explain to you the way the system works.

Mr. BONKER. Well, let's wait until Commerce is appearing with you.

Now, the 350 or so seizures, that came as a result of 2,480 detentions in 1982.

Mr. VON RAAB. Yes.

Mr. BONKER. So according to your own statistics, that is about 30 percent.

Mr. VON RAAB. That is right.

Mr. BONKER. Commerce says it is closer to 14 percent, but let's just proceed on the basis of your success with Operation Exodus. You say on page 23 that you currently have 45 indictments pending, as a result of 2,480 detentions. Commerce claims that half of that would have come without Customs' Operation Exodus at all.

But let's say that you are entirely right in your appraisal and that Operation Exodus is exclusively responsible for the 45 indictments. That comes out to almost \$500,000 per indictment. That is not a very impressive record.

Mr. VON RAAB. That is your judgment. We personally believe that this operation should not be judged just in terms of indictments, but I would not make light of only 45 indictments because more and more indictments will continue to come. As you are well aware, an indictment does not just appear after a few weeks. It takes an extensive amount of time and work.

Mr. BONKER. Well, let's take it beyond indictment. How many prosecutions?

Mr. VON RAAB. I don't have the numbers right here.

Mr. BONKER. You don't have any numbers on prosecutions?

Mr. VON RAAB. About 25 in 1982 through the last fiscal year.

Mr. BONKER. Twenty-five prosecutions. And assuming that Customs assumes full credit for all of these prosecutions, that comes out to \$1 million per prosecution.

Mr. VON RAAB. Well, actually it will come out to 25 divided by it would be \$8 million, if that is what you are looking for. You have to do a subsequent calculation this year because we are spending \$25 million this year. Last year we spent \$8 million.

Mr. BONKER. So you don't have any statistics for this year?

Mr. VON RAAB. We have so far 372 seizures.

Mr. BONKER. This year?

Mr. VON RAAB. That is right. I might also point out, for what it is worth, in terms of the value that has been collected by the U.S. Government, in 1982 the seizures were worth \$55 million to the U.S. Government, and thus far this year they have been worth \$15 million to the U.S. Government.

Mr. BONKER. Is that the amount of fines that you levied?

Mr. VON RAAB. Those are the value of the seizures.

Mr. BONKER. The value, I do not see where that is very important.

Mr. FRENZEL. Will the gentleman yield?

Mr. BONKER. I will be happy to.

Mr. FRENZEL. When you are talking about seizures, that is as distinct from a detention, because most of the things that these guys stumble over on the wharves and warehouses are things that they are concerned about and then later are released for shipment.

So I do not think seizures are important. It is how many transactions did they interrupt, how many letters of credit have been killed waiting for them to decide whether their instincts were right or wrong. So seizures is an interesting number, but it does not tell the story of what it does to U.S. trade activity.

Mr. VON RAAB. Well, in 1982 we interrupted 2,481 out of 9.9 million. Thus far this year we have interrupted 1,152, and I do not have the number of total shipments.

Mr. BONKER. Well, if you interrupted 1,152, how many seizures?

Mr. VON RAAB. 372.

Mr. BONKER. So that means the other interruptions were valid licenses and should not have been interrupted?

Mr. VON RAAB. It means a determination was made by the Commerce Department that they did not wish us to make a seizure. It could be that they would have issued a license under any circumstances or that the goods did not fit the specific requirements of licensing.

Mr. BONKER. You ended up with 25 prosecutions in fiscal year 1982 and you do not know how many this year. I know litigation runs beyond just a fiscal year, but it is a pretty expensive operation however you sum it up.

Mr. VON RAAB. Well, I agree with you, and if you would speak to people in the intelligence community, they would tell you that it is also a very cost-efficient operation considering the savings that the Soviets have made through the acquisition of this equipment over the years.

Mr. BONKER. Well, I think that that is a matter that is properly before the Defense, State, and Commerce Departments, which have more responsibility.

Mr. VON RAAB. Interestingly, \$25 million was actually given to the Customs Service through the process by DOD, so if the \$25 million is any indication of the value that the Defense Department feels, then they feel it is worth \$25 million out of their budget because this originally came from their budget.

Mr. BONKER. Well, do you know who authorized it?

Mr. VON RAAB. OMB.

Mr. BONKER. For the record, Mr. Chairman, I think it is relevant to the discussion today that in the Portland and Seattle areas we had a staff investigation with which I am sure you are familiar. In Portland, there were 26 detentions; Seattle, 27 detentions; Portland, 6 seizures; Seattle, 8 seizures. To date no prosecutions. The amount of money spent thus far on the program is close to a half-million dollars. It just doesn't seem very cost effective, at least as it relates to that area.

Mr. VON RAAB. Would you like me to respond to that?

Mr. BONKER. Yes.

Mr. VON RAAB. First of all, I would recommend, if you would, that you take a look at Senator Nunn's testimony that he gave just

recently before Senator Garn's Committee on Banking and Finance who are looking into the issue of the renewal of the Export Administration Act.

However, with respect to Seattle, since the inception through January 26 there have been 125 detentions, 41 seizures valued at just half a million dollars. Eight criminal investigations of various complexities have been initiated. There have been attempts at exports of military avionics, F-16 fighter bomber display power units, arms munitions, night vision equipment, various types of integrated circuits, technical data on prototype integrated circuits, side scan sonar.

Mr. BONKER. Mr. von Raab, I think you are going way beyond just the Export Administration Act. These are munitions cases. That is another program.

Mr. VON RAAB. That is the same program. Exodus is not just the Export Administration Act. It is the Munitions Control Act as well as the Export Administration Act. The reason that Commerce says that only 365 of the 765 seizures were commerce is because the other 400 were munitions control; so the moneys being used for Operation Exodus are being used both for munitions control and for export administration.

Mr. BONKER. Well, as it relates to the Export Administration Act, our survey in the Seattle-Portland area led us to believe that almost all of the important seizures were the result of information that came from outside of inspections conducted pursuant to Operation Exodus. There were calls that came into you, calls that came to the Department of Commerce, interagency referrals.

When you come before the joint subcommittees on March 1, I hope you will be able to present testimony as to how these leads develop.

Mr. VON RAAB. Absolutely. We have a considerable staff of investigators who are working on this issue 292 individuals who were responsible for export controls, both munitions and export administration. Well over half of them are investigators; therefore, I would hope they produce some leads; otherwise, they are not doing their job.

Mr. BONKER. Mr. von Raab, just one final question, a little more parochial, if you will, as it relates to the Seattle-Tacoma Airport. The Customs Service there, as you know, has been strained in its efforts to carry out traditional services. As of April 2 there will be approximately a 25-percent passenger increase on flights from Pacific countries. That is going to put an awesome load of responsibility on personnel that is already falling way behind.

I was alarmed enough over the fact that the port authorities are not getting any positive response from you in their efforts to accommodate this increased traffic which is going to contribute, I might add, to America's economy, and at the same time you are increasing significantly Operation Exodus.

And now I hear today that you are going to have a reduction of how many people?

Mr. VON RAAB. Overall, 2,000.

Mr. BONKER. A reduction of 2,000 people. I just have to echo the same questions that have been posed by the chairman and others on the panel. In this area with a substantial increase in traffic, if

you are going to cut 2,000 people and the Customs employees there are already working to the hilt, how on Earth are you going to accommodate the new traffic?

Mr. VON RAAB. Well, I would like to comment on the Seattle Airport situation; that is that just recently our Customs officials were in Seattle, and at least the report that I have received back that the airport authority is quite happy with the handling by Customs of the Seattle Airport.

Mr. BONKER. The port authority?

Mr. VON RAAB. Yes, sir. This is Mr. Hall. We had to wait a few weeks to get to Mr. Hall because he was on vacation in Honolulu, but once he returned, we met with him, which was last week; and we have agreed on a reconfiguration of the passenger processing facility and also the addition of certain temporary employees to meet the peaks.

Mr. BONKER. Can you be specific, Mr. von Raab.

Mr. VON RAAB. I cannot be specific on the reconfiguration of the airport without actually producing charts.

Mr. BONKER. Well, how many more personnel do you expect to assign to Seattle?

Mr. VON RAAB. I am not sure how many temporary employees, seven or eight.

Mr. BONKER. To help meet this new passenger load?

Mr. VON RAAB. That is right. And they will be ready by April 2.

Mr. BONKER. Seven or eight additional part time?

Mr. VON RAAB. Part time.

Mr. BONKER. Is this just a temporary arrangement?

Mr. VON RAAB. Well, until we see how the whole schedule actually plays out, but certainly initially for the peaks that you will be seeing we are going to be staffing it with temporary personnel.

Now, once we see how it settles out, we will readjust with permanent personnel.

Mr. BONKER. Well, I do not know how you are going to do it in view of these drastic reductions that are proposed in your budget.

Mr. VON RAAB. Well, maybe we will make them in places other than Seattle.

Mr. BONKER. Well, I hope it is not going to be in Mr. Gibbons' district. [Laughter.]

Mr. Chairman, I want to thank you again for allowing me to participate in these hearings. They have been most interesting.

Chairman GIBBONS. Mr. Bonker, I want to thank you, too, for your interest in this, and I think those of us who have traveled overseas much and talked to American businesspeople operating over there, and we ask them the question "what is the biggest problem you have that we may be able to do something about in the Congress," and it used to be that they talked to us about the taxes that we levied upon them as working over there. We remedied that problem, but right behind that problem and now the front ranking problem that we run into is the Export Administration Act.

There is a constant barrage of criticism: One, it takes too long; two, we are ultra conservative or ultra aggressive in classifying things as being sensitive. And so I commend you and your committee for opening this set of hearings; and since we share some juris-

diction in this because of Customs, we will be anxious to cooperate with you, because obviously if we are going to get our fair share of export trade, we have got to do a better job in the administration of the export administration laws and perhaps actually make some fundamental changes.

And before I go into some questions, I would like to recognize Mr. Vander Jagt.

Mr. VANDER JAGT. Go ahead, Mr. Chairman.

Chairman GIBBONS. Well, let us go into this export administration law now.

Does Customs actually contact our foreign trade competitors to see whether we are applying a different set of principles and standards to export administration?

Mr. VON RAAB. In terms of the enforcement of the Export Administration Act, there are really two parts to it. They are sort of hard to sort out. The one is really the licensing side, which if you want we can call administrative enforcement; and the other one is the physical side which we could call criminal enforcement.

All of the responsibilities for administrative enforcement, what is required, what is not required, are done by the Commerce Department. That is under Assistant Secretary Larry Brady, and a fellow named Ted Wu is the specific individual responsible for this.

So in terms of discussing the issue of what should and how licenses should be issued, et cetera, with foreign governments, this would be done by the Commerce Department. The only conversations that the Customs Service would have with any foreign individuals would be conversations with other enforcement organizations in those countries. For example, we would regularly be talking to the German Customs Service about shipments that were entering and leaving Germany that we thought were sensitive for one reason or the other.

Chairman GIBBONS. After Mr. Brady and his group have approved a license, how do you take over from there?

Mr. VON RAAB. If there is a license, properly issued license, the Customs Service would not really be involved in that because the license is issued to the exporter, and all he does is indicated to the Customs Service on his documents that there is a license.

Chairman GIBBONS. OK. Let us say a crate appears at an airport or a seaport with certain markings on the outside. How do you know whether that is a licensed crate or not?

Mr. VON RAAB. The documentation that would accompany that crate would indicate whether there was a license or not.

Chairman GIBBONS. Do you inspect every crate that leaves this country?

Mr. VON RAAB. No, sir.

Mr. BONKER. Will the gentleman yield?

Chairman GIBBONS. Yes, sir. Mr. Bonker.

Mr. BONKER. I think the chairman is on the right track. It seems to me that if the Department of Commerce has both administrative and enforcement authority with respect to the licenses, that if the licenses were to accompany the SED for the shipment, or if a copy of the license were to come straight to Customs, then you would not have to spend so much time trying to verify it.

Mr. VON RAAB. I agree with you 100 percent. That is a great idea. That is a request we made of the Commerce Department back in April. They have refused to do it. We would like to have a Xerox copy of the license, and we would like to have the SED filed with Customs so that we could make those decisions. That would be super. And we have asked for it, and if you could help us get that, we would really appreciate it.

Mr. BONKER. Just for the benefit of the chairman and the others on the committee, what is happening is that when you intercept something at the dock, you have to determine not only whether there is a license, but also if the description on the license parallels the equipment being shipped. This is all very complicated and technical material. Customs at the port goes back to Customs in Washington, D.C. to check this out. Customs has to go over to the Department of Commerce. And Commerce determines whether that cargo sitting on the dock is what it is supposed to be, and then that decision comes back to the port.

It seems to me a very lengthy, costly, and unnecessary process, with two Federal agencies trying to do the same thing.

Mr. VON RAAB. If I could, I will tell you exactly how it works. A Customs inspector in Seattle at the airport sees a crate or he has had advance information that there is a crate going to go out, or for some reason he identifies a piece of cargo, the documentation is screwy, it does not make sense.

He then calls. He makes a determination to detain it because of the profile. These are the 2,481 detentions we are talking about last year. He immediately puts a yellow warning label on the cargo, calls up the command center in Washington. Say it is 10 o'clock in the morning. He also notifies the shipper and anyone else who has an interest in those goods that this shipment has been detained by U.S. Customs.

The command center logs in the information with respect to the shipment, what it is or what it is supposed to be, who it is going to, et cetera.

Chairman GIBBONS. On 3 by 5 cards by hand? [Laughter.]

Mr. VON RAAB. No. Actually, it is on a big legal sheet. This sheet is then taken over twice a day to the Commerce Department by a Customs agent. He takes it directly—

Mr. BONKER. Back here?

Mr. VON RAAB. Well, this is from Washington. It has been phoned in to Washington, so it is physically taken over to the Commerce Department and then physically presented to a licensing officer for a determination as to whether this should be released or seized.

Now, except in the electro area, the EE area in Commerce, the determinations are typically made within 2 to 3 hours. As far as microelectronics are concerned, those determinations often take 3 to 5 days, and there are times that it takes weeks, because it is often the case that detailed enough specifications do not, are not present for the Commerce Department to make a determination as to whether this should be seized or released. If a determination is made that this should be seized, the Commerce Department signs the form, as does the Customs Service, and information is given to the Seattle inspector to seize the goods. If, however, a determina-

tion is made that it does not require or it has a proper license, then a determination is made, and a notification is given to the inspector to release the goods.

So the time it takes to get from the dock to the Commerce Department is less than a day. The problem is it is very difficult in many of these cases to make a determination on whether something should or should not have been licensed. That is the tough part, and that does take time. And often people who are complaining—one of your constituents in Seattle, for example, and I will not mention his name, but I am sure you have run into him—his problem with Operation Exodus is that he does not agree with the Commerce Department's determination that the goods that he is shipping out of the United States should be licensed.

His problem is not that he is being held up by all of these people in terms of the procedures, but he just does not agree that certain items, five shipments, in particular, should require a license, which is sort of a higher level policy issue than whether Customs and Commerce are operating efficiently.

Mr. BONKER. The overwhelming sentiment at the joint hearings of the Department of Commerce and the President's Export Council all over the country is that we need those national security controls. Nobody takes issue with that. It is how the program is administered.

Chairman GIBBONS. Well, I have a lot of questions for you on Operation Exodus, and maybe I am going to postpone most of those. I will probably submit some of them to you in writing, and then I will pick you up in the other hearings.

[The questions and answers follow:]

Question. The budget request of the U.S. Customs Service contains \$10 million for "equipment" for Operation Exodus. List in detail the type of equipment expected to be purchased and for what purpose it is to be used.

Answer. Customs intends to acquire the following items of equipment.

Secure telephones Voice privacy radios: To provide communications between Exodus ports and with enforcement teams on site or on surveillance without fear of eavesdropping.

Surveillance vehicles: For use in special enforcement operations and conduct of specific investigations where violations of export laws are suspected.

Electronic surveillance and tagging equipment: Devices by which the movement of high technology merchandise can be followed by monitoring electronic signals.

Computer terminals: Will provide the capability for access at each Exodus location to the extensive data base on exporters, specific commodities and suspected violators.

The remainder of the \$10 million will primarily fund equipment maintenance requirements and the costs of special and covert operations.

Question. Customs has requested an increase in its travel budget of about 63 percent from \$12,719,000 to \$20,722,000, primarily for use in the Exodus and Drug Task Force programs. What part of this additional money is expected to be spent for Exodus alone? Explain the travel needs under the Exodus program; which categories of personnel travel the most? What part of the increased travel budget is unrelated to Exodus or the Drug Task Force?

Answer. The increase in the travel requirement in fiscal year 1983 over fiscal year 1982 of just over \$8 million reflects increases necessary to maintain current levels of operation (\$1.2 million), Operation Exodus (\$2.9 million) and Operation Florida (\$3.9 million). Resources for the Drug Task Forces for fiscal year 1983 are not reflected in Customs Submission since they will be reimbursed by the Justice Department. However, in fiscal year 1984 Customs has included in its budget request \$1.9 million for travel related to this program.

Under the Exodus program, travel costs (transportation and per diem) will be applied to the conduct of special and covert operations training for employees new to the program and travel to locations not specifically classified as Exodus ports but

those at which export violations are suspected. Customs Special Agents and Inspectors will be the principal users of travel resources under the program.

Question. Explain how the Exodus "teams" are comprised and how they are assigned in the various ports and districts. How many teams (and their total personnel) are in the field under this program? How often do they travel?

Answer. Currently there are 65 enforcement teams dedicated exclusively to the efforts of Operation Exodus. These teams are comprised of Customs personnel and consist of special agents, inspectors, patrol officers, and import specialists. Support is continuously provided to these teams by Customs officers assigned to other functional areas. There are 229 domestic field personnel assigned exclusively to export control duties. We anticipate that the remaining 63 positions will be filled in the next 30 to 60 days. Teams are located in 41 different cities, based on a detailed analysis of locations most prone to export violations. Because of the prepositioning of Customs personnel in these areas and in order to minimize expenses and avoid disruption of these enforcement efforts, travel by team members is currently limited to participation in special operations and pursuing investigative leads outside locations where Customs personnel are assigned. We plan to expand the use of the teams in fiscal year 1984 by conducting blitz operations in areas where no teams exist and by augmentation of teams already in place. Substantial travel funding on a continuing basis will be required.

Question. How many detentions have been made under Exodus since the program began, by month and by exit point? What is the average length of time between detention and release or seizure of a shipment?

Answer. The Exodus Command Center was established in January 1982. Between January 1982 and January 1983, 2,564 detentions were made.

Attached is a breakdown for each of the 13 months by port for all referrals, which includes detentions, made to the Exodus Command Center.

The average length of time between detention and release or seizure of a shipment is 15 calendar days.

REFERRALS (INCLUDING DETENTIONS)

Port	1982-83												Total
	J	F	M	A	M	J	J	A	S	O	N	D	J
Albany.....			1										1
Alex. Bay.....					1					1			2
Anchorage.....				1	4	1							6
Atlanta.....			3	2	2			2	1	2		8	26
Baltimore.....		4	8	11	20	13	11	16	14	8	10	10	139
Blaine.....			1		1						1	1	4
Boston.....		20	23	25	17	8	13	14	11	12	14	11	248
Buffalo.....		6	4	5	8	9	2	7	8	2	3	3	60
Cables.....		2		7	8	4	1	1	1	4	4	1	34
Calais, Maine.....					1			1					2
Charleston.....				4	12	10		5	7	13	8	3	67
Chateaugay.....										1			1
Chicago.....		6	11	16	20	14	15	7	12	12	20	15	170
Cincinnati.....						2					1	1	5
Cleveland.....			1	2	1	1		1		8		1	20
Columbus, N. Mex.....						1							1
Dallas.....		1			3	2	2	7	12	9	10	14	76
Dayton.....											1		1
Del Rio.....												1	1
Denver.....		1		1								2	4
Derby line.....								1			5		6
Detroit.....		1	9	4	6	9	7	5	6	3	5	11	75
Dulles.....		2	18	11	18	9	4	3	6	5	7	4	104
El Paso.....									1	1		2	8
Galveston.....		1											1
Great Falls.....				1	1			1					3
Hartford.....				1									1
Honolulu.....		1	3	6	1	1						3	16
HDQS.....		1	2	6	2	1	3	2	2			3	24
High Gate.....						1		3	1			1	9
Houston.....		2	7	12	9	5	7	9	4	4	1	2	67

REFERRALS (INCLUDING DETENTIONS)—Continued

Port	1982-83												Total
	J	F	M	A	M	J	J	A	S	O	N	D	J
Huntsville.....													1
Indianapolis.....								1					1
International Falls.....									1				1
Jacksonville.....						1		1	2	5	5	2	22
Kansas City.....						2			2	1			6
Laredo.....						1						1	3
Las Vegas.....			2										2
Los Angeles Airport.....	15	45	24	48	33	22	10	6	10	9	8	20	250
Los Angeles Seaport.....	1	12	3	11	4	2	1	2	1	5	2	6	49
McAllen.....								1					1
Messena.....									2				2
Miami.....		7	10	20	20	23	30	31	30	33	28	19	251
Minnesota.....	1	12	4	1	4	5	4	5	1	2		4	48
Mobile.....			1	1	2		1					1	6
Montreal.....	1	1	1			1							4
New Haven.....								2		1	1	1	7
New York, J.F.K.....	8	21	21	27	41	52	33	42	67	33	67	62	474
New York, Seaport.....	3	15	18	21	8	11	26	7	6	8	10	19	152
New Orleans.....	16	16	12	19	12	17	11	12	2	9	16	11	152
Newark.....	3	5	19	12	17	7	18	33	16	13	11	15	169
Nogales.....								1					6
Norfolk.....	6	9	11	3	1	3	3	3				2	26
Pembina.....		2		1									3
Philadelphia.....			1	1	4	4	8	9	11	11	6	9	64
Phoenix.....				1								1	2
Port Huron.....	2					1							3
Portal, N. Dak.....			2		1				1				4
Portland.....	3	2	1	1			2		7		1	5	22
Rochester.....	1	1					1				1		4
Rouses Point.....	14	15	2	3		8	9	6	4	5	12		67
San Diego.....	2					5	2	1			3	6	19
San Francisco.....	20	40	12	21	22	17	28	18	14	12	9	4	217
San Jose.....	1												1
San Juan.....	4	8	4	2		7	2	3	3	1			34
Sault Sainte Marie.....		1				1				1			3
Savannah.....	4	10	4	2	4	2	3	1	2	5			37
Seattle.....	11	26	6	7	3	5	3	4	3	4	1	6	79
St. Louis.....					1	1	1				1		4
Stewart AFB.....	1												1
Syracuse.....							1	1				1	3
Tampa.....					1			1	6	3	1	3	15
Tucson.....					1				1	1			3
Wichita.....					1								1
Wilmington.....	1				1	11	2	2			1	1	22
Total referrals.....													3,402
Total detentions.....													2,564
Percent of referrals.....													75

Question. What percentage of detentions are discovered to be in violation of the Act? What kinds of violations occur most often (incorrect licenses, attempts to transport critical technology without a license, etc)? How many indictments and convictions have resulted from Exodus?

Answer. In fiscal year 1982 there were 9.9 million export shipments from the United States under the supervision of the Customs Service. Of these 2481 were detained. This figure represents .03 percent of the total number of U.S. exports. Of those shipments detained 765 or 30.83 percent were ultimately seized for violations of export laws.

Investigations resulting from Operation Exodus activities have revealed that the violations of the Export Control Act most often occurred as a result of an attempt to

export critical technology either without any license or without a proper license. Many exporters found to be in violation of the act had been issued a General Destinations (G-DEST) license but that license had not been validated for exportation of shipments to specific controlled locations.

Since the inception of Operation Exodus to the present there have been 126 grand jury indictments and 146 convictions for violations of the export laws.

Question. How are shipments inspected under the Exodus program? What criteria are used in selecting shipments for detention or further investigation? How many investigations were initiated under Exodus as a result of "tips" or information provided by other enforcement agencies?

Answer. Examination of export cargo begins with scrutinization of documentation associated with the shipments. Inspectional personnel review vital data contained on the shipping documents (i.e. airway bill, ocean bill of lading, etc), invoices prepared by the exporter or manufacturer and the Shipper's Export Declaration. By profiling these items in accordance with established Exodus team procedures, identification of suspect shipments can be readily made and a physical inspection of the commodity will ensue.

Criteria used in selecting shipments for examination include, but are not limited to the following: conflicting, misleading or inaccurate information on shipping documents; through experience, the inspecting officer recognizes a commodity which requires a validated license; the exporter/manufacturer is of record with Customs as a prior violator; the shipment is destined to a country utilized by the Chinese or Soviet bloc for transshipment or diversion; suspect carrier; a low declared value commodity which is obviously over-insured; prior information; and local area profile.

Criteria which could trigger an investigation include the following; manufacturer/exporter with known criminal history; detention/seizure of strategic commodities which could adversely impact national security; attempted shipment in violation of embargo sanctions that could jeopardize our established foreign policy; an obvious willful attempt to illegally export; local area profile.

Investigations are initiated in numerous ways including information from confidential informants, intelligence from the law enforcement community and foreign governments, routine examination of exporter records, covert "sting" operations whereby undercover agents and informants provide a mechanism for willful violators to achieve their goals and through identification of high technology items which have been disguised as commercial items requiring no special licensing. Although our current manual case tracking system does not allow a retrieval of information as to the basis for initiation of an investigation, the Customs Service is in the process of implementing an automated case tracking system which can provide this type of information.

Question. How would you describe the cooperation and coordination between Customs and other enforcement agencies, including commerce, charged with enforcing export control laws?

Answer. Customs is responsible, through delegation, for enforcement of the nations two major export control laws: the Arms Export Control Act and the Export Administration Act.

Teams of Customs special agents are assigned to the Department of Commerce, Office of Export Administration and the Department of State, Office of Munitions Control. The Customs personnel, in a coordinated effort with the respective Department personnel, provide vital information and intelligence utilized by the Exodus Command Center and Exodus field teams.

In addition, Customs has a history of successful coordination and cooperation with the Department of Justice, other enforcement agencies and the intelligence community who, in various degrees, are charged with supporting or enforcing aspects of export control.

Presently the Treasury Department is discussing several coordination areas with the Department of Commerce that need improvement. The topics of discussion are: foreign investigations; access to EAA Section 12(c) information; licensing determinations and procedures; and, more specific mutual guidelines to preclude duplication of effort. A memorandum of understanding being developed for Commerce and Customs will address these topics.

Question. What kind of computerized data are you unable to get from the Commerce Department that you feel you need to improve your performance and efficiency under the Exodus program? Why is this information needed and how is it to be used?

Answer. Access to records: Customs has formally requested access to the following Commerce files:

(1) Computerized licensing files which includes granted, denied or returned without action.

(2) Licensing screen which contains the names of suspect firms/individuals suspected of violating the export laws.

(3) Intelligence/Investigative files which contain all enforcement information received or developed by the Office of Export Compliance.

Currently our access to these files, is on a case-by-case basis. We make specific requests and are provided that information currently being maintained in the files identified above.

It is our view that we would benefit substantially if we were given unlimited access to Commerce's non-investigative files (computerized licensing files) for intelligence and investigative purposes.

Additionally, Customs is attempting to gain access to Bureau of Census files on Shipper's Export Declarations (SEDs), but we are encountering reluctance due to the confidentiality provisions afforded SED's. This information is essential in order for us to conduct meaningful analyses of the ports where technology is being exported, the quantities and description of technology being exported at these ports and the exporters effecting these exportations.

Question. Is the Custom Service planning to introduce computers into the field to assist inspectors in identifying licensable shipments?

Answer. Possibly. Customs inspectors already can use TECS (Treasury Enforcement Communications System) to aid their determination of whether an exporter has had previous export or import detentions or seizures. Future automation of the Exodus Command Center (your question 15) will allow inspectors to have a faster response regarding the licensing history of exporters and the licensable requirements of specific exports. Studies are being conducted now to determine the value and/or practicality of using small portable microcomputers for these screening purposes. These studies will be completed by the end of April, 1983.

Question. What efforts are being made to better educate Customs inspectors to recognize those particular exports which may be in violation of the export laws? What coordination is done with the Commerce Dept. to improve the ability of Customs agents to identify critical or high technology equipment once defined as requiring an export license?

Answer. The following have been developed to help the inspector in the field make a determination on a particular export.

(1) A training film, "Enforcement of Export Laws and a Review of Related Documentation," which reviews illegal export profiles, including the references and documentation necessary to identify illegal exports. This video tape was distributed to the regional offices during the week of February 14, 1983.

(2) The Exodus Inspectional Handbook which reviews those statutes, regulations, policies, procedures, and techniques necessary for the inspector to perform export enforcement duties. It is expected that this document will be available to the field no later than March 25, 1983.

(3) A Customs Policy and Procedures Manual-Supplement, which provides national procedures for the effective implementation and control of inspectional efforts in Exodus team operations. It is presently being circulated for review.

The first two items are actual training tools to facilitate inspectional field operations. The third item provides for training to be administered at the regional level in addition to a training program developed and implemented by our Headquarters staff.

Customs is also in the process of receiving feedback from field offices as to their perceived needs for training. This information will be used to develop a formal training program. It is expected that this training will include input from Government agencies charged with final export enforcement determination, as well as information from members of industry extensively involved in the exportation of high technology products.

We currently have criminal investigators directly assigned to the Department of Commerce to assist their licensing officers in facilitating licensing determinations. These same special agents have access to license history files at the Department of Commerce as well other information which, when transferred to the field special agent, will assist him in identifying those export articles subject to a validated license.

Question. Describe the functions of the new Office of Strategic Investigations in Customs. What coordination is done with the Commerce Department in investigating possible violations of Export Control Laws?

Answer. The Strategic Investigations Division is one of three investigative divisions within the Office of Enforcement and is composed of the Technology, Muni-

tions Control, and Field Operations Branches. The Strategic Investigations Division is responsible for investigative matters in the areas of neutrality, illegal exports, and international terrorism.

The Division develops programs and guidelines for the orderly conduct and coordination of investigations in the areas of neutrality, exportation of critical technology, terrorist activities and a broad range of threats against international commerce, as well as related major conspiracies.

The Division is further responsible for coordinating major investigations with the Departments of State, Commerce, Justice and the intelligence community concerning the illegal exportations of military equipment/critical technology and is responsible to correlate and disseminate information from those sources to the field for investigation and interdiction enforcement.

Question. Describe the terms and condition of the new Memorandum of Understanding negotiated between the Department of Commerce and the Customs Service dividing enforcement responsibility?

Answer. We are currently in the process of negotiating a Memorandum of Understanding with the Department of Commerce; however, no such agreement has yet been concluded.

Question. Is there any duplication of effort now performed by Customs agents by the Commerce Department Office of Export Enforcement? If so, please describe.

Answer. Foreign investigations: Customs currently conducts the majority of the foreign investigations relating to technology transfers. Commerce continues to transmit cables to embassies and consulates abroad requesting that investigations be made on their behalf by the Economic Defense Officer, Commercial Officer, or some other embassy official. In some instances Commerce sends their own investigators overseas to pursue an inquiry. Such actions are confusing to the foreign government authorities since they are unable to discern which U.S. agency they (the foreign entity) should be dealing with.

These actions are continuing even though Commerce has indicated that they planned to cease sending such leads directly to the embassies. If leads are to be pursued abroad, they should be sent to the Customs Attaches, Representatives. Additionally foreign travel by Commerce agents should be coordinated with the appropriate Customs Attache/Representatives. These changes in Commerce's method of operation have not yet been fully implemented.

Domestic investigations: There have been a number of meetings between management officials of Customs, Commerce and Treasury to identify methods to enhance the coordination of our export enforcement efforts. The general consensus of these meetings has been that Commerce wants to work with Customs, rather than undertake a separate enforcement role. However, there have been recent indications that Commerce does intend to undertake certain law enforcement initiatives, which will duplicate efforts already being pursued by Customs. We believe that this action on the part of Commerce is an uneconomical use of the limited resources available for export enforcement. In our view, it would be more beneficial to the program if Commerce devoted its resources to the licensing area and the establishment of a viable intelligence dissemination system designed to assist the entire export enforcement community. Currently, Commerce has the resources and access to the data needed to establish this type of system.

Question. What is the role of the Customs Service's foreign offices in the Exodus program? How many persons are assigned abroad and in what capacity?

Answer. The extent of involvement of our foreign offices in critical technology investigations depends on the particular office.

The overseas offices of the U.S. Customs Service conduct criminal investigations and gather intelligence in conjunction with the host government. Our historical presence in foreign countries working closely with our counterparts on Customs matters has provided an established foundation of information exchange and cooperation enabling us to identify foreign conspirators.

A major role of the foreign offices is collecting information regarding the illegal flow of U.S. technology across our border and the identification of shipments diverted through Western or neutral nations to the Warsaw Pact.

Customs currently maintains eight overseas offices which function under the direction of the Headquarters Office of Investigations. These offices are in embassies and consulates and are staffed by either special agents or other Customs officers experienced in both investigative and related duties. Offices are maintained in Tokyo, London, Bonn, Paris, Rome, Mexico City, Ottawa, and Hong Kong. The Customs Attache, at the embassies and the Senior Customs Representatives at the consulates, are responsible for all U.S. Customs activities in both the host country as well as activities in adjacent countries in which there is no U.S. Customs Service presence.

The International Enforcement Staff has submitted proposals for new attaches of-fices and increases in existing offices in various locations throughout the world. Budget allocations for FY 83 for the new positions have been submitted and are currently awaiting approval from Treasury.

The existing and proposed staff breakdown by office is as follows:

Office	Existing agent staff	Proposed agent staff
Tokyo	3	2
London	2	2
Bonn	3	
Paris	2	2
Rome	2	1
Mexico City	3	1
Ottawa	1	1
Hong Kong	3	
Panama City		2
Seoul		2
Manila		2
New Delhi		2
Lima		2

Note.—Additionally, Customs is seeking to place, on a temporary one (1) year basis, one (1) agent in Bangkok, Thailand and one (1) in Singapore.

Question. During a staff tour of the Exodus Command Center in Customs Headquarters, it was observed that information was being written on 3 x 5 cards and manually indexed and stored. Case filing is done manually. Are any attempts being made to automate this process to establish a computerized indexing system?

Answer. A study of the current procedures for data handling by the Exodus Command Center is being conducted. The study will determine requirements for a computer system to automate the Command Center's information gathering, storage, and dissemination of data now being manually controlled.

Funding has been provided in the FY 83 Exodus budget to implement the recommendations for this study. The study will be complete within 2 months and the computer system operational within 6 months.

The computer system will substantially reduce manual data handling within the Command Center. Referrals to the Command Center received from field inspectors will be the source data for the indices currently created and stored by hand. This system will transmit the referrals to appropriate licensing agencies and create a data base for analysis.

This computerized system will improve response time for information sought from the Exodus Command Center and will provide interfaces with other government agencies.

Question. What kind of information does Customs provide to exporters to assist them in meeting all export regulations and requirements and in acquiring proper documentation?

Answer. In administering the Export Administration Act the Commerce Department has provided the exporting public with excellent publications detailing the mechanics of exporting. The publications explain U.S. government export regulations and indicate what documentation is required in order to export goods. The Customs Service has recently developed a video film, in addition to a pamphlet, explaining Operation Exodus, its results, and how U.S. business can assist. In addition to publications that assist exporters in meeting export regulations and requirements, representatives from the Customs Service have attended meetings with the National Committee on International Trade Documentation where they participated in discussions on ways in which Customs and the business community can assist each other in order to expedite the flow of legitimate exports. Meetings have been held at the field level with various groups representing exporters. Future conference with exporters are being planned at both the Headquarters and field levels. Efforts to provide assistance to individuals and companies involved in exporting will continue.

The Commissioner of Customs recently sent approximately 1500 letters to selected manufacturers of technology items to describe our role in Operation Exodus and to solicit the cooperation of private enterprise. The Commissioner has also conducted numerous personal visits to selected manufacturers/exporters in an effort to assist them in export problems as relates to Operation Exodus.

Question. Is there a mechanism for receiving and processing complaints about delays in verification of the validity of export shipments, sharing such information with the Commerce Department, and resolving problems? Do exporters feel that they will be singled out for repeated inspections if they complain?

Answer. Written complaints regarding delays in verifying the status of export shipments, upon receipt by the Customs Service are transmitted to the Strategic Investigations Division for review and appropriate response. The Operation Exodus Command Center furnishes a complete chronological history of all export shipments relating to the shipper. Customs is able to quickly notify the complainant as to the specific date on which the technical specifications relating to the detained merchandise was transmitted to the Department of Commerce for a licensing determination.

Customs makes every effort to furnish the Department of Commerce with copies of responses to complaints.

Telephonic complaints and personal visits to the Operation Exodus Command Center are handled on-the-spot.

The U.S. Customs Service has received no indication that exporters feel they will be singled out for repeated inspections if they should complain. Such a practice by this service does not exist and would never be tolerated.

The Strategic Investigation Division is currently reviewing all congressional inquiries relating to Operation Exodus in an effort to identify common problems and take appropriate steps to facilitate trade without jeopardizing the security of the U.S.

Question. Explain the circumstances under which a Customs agent would not be able to detain and inspect an export shipment without first obtaining a search warrant. What kind of searches do Customs agents now perform, or might be expected to perform, under the Exodus program that would always require a warrant?

Answer. There have been several judicial decisions regarding the necessity for a search warrant in order to search a shipment intended for export.

These decisions have generally held that the process of exportation begins (1) upon entrance of an article into the export stream, i.e. delivery by the exporter to a freight forwarder or exporting carrier, (2) when the exporter tells the shipper that the ultimate destination of the article is outside the U.S., and (3) the exporter indicates no intention of stopping the shipment from proceeding. If these three conditions are met, then the article can be searched under warrantless border search authority. However, if one or more of the conditions are not met, then the Customs officer is required to obtain a search warrant in order to search the shipment.

In some instances, information may be received that the exporter is intending to illegally ship an article by an unknown and/or clandestine method and it is necessary to effect an immediate seizure for national security and/or evidentiary purposes. In these cases a search warrant is required to both enter the exporter's premises and to effect the seizure.

Question. What funds are expected to be transferred to Customs from the Departments of Defense or Commerce, or other agencies for use in the Exodus program?

Answer. The Department of Defense supported expanding Customs Operation Exodus capabilities and increasing available resources by transferring \$30 million to Customs fiscal year 1983 appropriation. Although the Congress did not transfer the funding, it did increase Customs fiscal year 1983 Exodus program by \$12 million, for a total of \$20 million.

At the present time, there are no expectations for fiscal year 1984 of Customs being the recipient of additional resources transferred from other agencies to support Operation Exodus.

Chairman GIBBONS. Mr. Frenzel, do you have anything?

Mr. FRENZEL. Yes; I, too, would like to concentrate on Chairman Bonker's hearings, because we will be able to zero in on Exodus to the exclusion of others; but we will have the other agencies involved, and that will make it easier. I assume Defense will be there having a big piece of the action.

But I did want to know, apparently you have two less programs. One relates to the munitions control list, which should be fairly routine, and as I understand it, that is something that you have had some interest in along the way and had no trouble with, is that correct?

Mr. VON RAAB. Well, I guess we have fewer complaints. Maybe the exporting community has been used to tougher enforcement in that area for a longer time; and it is fair to say that the increase in enforcement in the dual use of commerce items is a newer phenomenon, and therefore, there may be more growing pains both for the exporting community and for the Federal Government.

Mr. FRENZEL. Yes; I think that is an area where the customer is not like somebody in the normal course of trade. They are used to restrictions. But it is quite different when you get to the other list, the commodity control list, which nobody seems to understand and be able to interpret. And Chairman Bonker was talking about the business of Commerce and Customs working together.

I had thought that you had some kind of electronic hookup. I did not realize that you were freighting handwritten lists around.

Mr. VON RAAB. We do not have access to Commerce's data because they regard it as business confidential, and they feel they should not allow us to have access to it; therefore, we have to make specific requests. For some reason the State Department which administers the Munitions Control Act does not feel this way, and they give us complete access to their data.

Mr. FRENZEL. And, of course, the data for the munitions control list is considerably less broad in scope.

Mr. VON RAAB. I do not know that since I have never seen the totality of the Commerce data. But the Justice Department has made a determination that Customs should be able to have access to it.

Mr. FRENZEL. Well, supposing I have a piece of freight on the pad out at Idlewild, and your inspector says hey, there may be something wrong, maybe the description is not right, and really need a license. Then he phones your guy down there, who writes it up and takes it over to Commerce?

Mr. VON RAAB. That is right.

Mr. FRENZEL. And we have been told by Commerce that they are making a 24 hour turnaround on the request for information. Is that happening?

Mr. VON RAAB. Well, it depends upon the type of equipment. Electronics is not making that 24-hour turnaround. We figure more than 3 to 5 days. I am sorry. I am wrong. The office of Export Enforcement Section of Commerce is turning them around usually within a day, whereas the capital goods is taking 3 to 5 days.

Mr. FRENZEL. It would be well when Mr. Bonker has his hearings that we kind of get some idea of how this system is working, because I think we are getting a lot more complaints about it than you are. The people who deal through Customs, Commerce, and the Defense Department are a little nervous about complaining to you because they think they are going to get some preferential treatment like getting their next shipment detained for a while; and they are not quite as bashful with us about telling us how tough things are.

Mr. VON RAAB. I have received very few complaints. As a matter of fact, most telephone calls I have received on this have been reports of shipments that were going to be diverted. So I have received more calls with potential violations than I have complaining.

Mr. FRENZEL. I am sure that you are being advised by good and worthy patriots. We were talking about criminal cases and the difference between a seizure and a detention. What programs do you have working so that you can reduce the number of detentions and bring it closer to the number of seizures and then make the seizures number correlate a little stronger with your indictments or your cases or whatever?

It seems that when you get done with all of the bureaucratic shuffle and all of the detention of shipments, we are getting down to precious few, what you might call at least indictable or convictable violations. And if we are just going through this routine to scare the troops, it is not a worthwhile routine. It ought to be fixed up. Do you have a program on?

Mr. VON RAAB. Well, there is a program de facto, and that is that the longer the inspectors are doing this, the more experience they will have. And by the way, we have seen an improvement in that. We also have formal training programs of inspectors in this area. We have put out in each of the major ports a port coordinator whose responsibility is to advise and assist and to move all of these efforts along.

I personally believe that you will see the detention rates increasing. In headquarters the command center is trying to improve the information that it can feed back to the inspectors, so we are maintaining records on all previous detentions and previous seizures; so that when an inspector calls up and says he has a certain type of equipment out there, we can tell him as quickly as possible whether those goods have been seized in the past without a license. And as with all good efforts, we are trying to put this on a computer, and we hope to be there pretty soon.

I hope that we will see a detention rate this year of over 50 percent, and after that it is hard to say because one thing—

Mr. FRENZEL. You mean a rate of seizures to detentions.

Mr. VON RAAB. That is right.

One thing we had expected to see were the numbers of detentions drop, but as we learned what not to seize or detain, we also have begun to identify other items that we should be detaining. But I do think that it might be helpful for future hearings if you asked us to, and we would be happy to separate the munitions control statistics from the Export Administration Act statistics.

Mr. FRENZEL. I think that would be helpful.

Mr. VON RAAB. Because the ones we talk about, we do not really distinguish one from the other because we go through the same procedure for both of them; so it is a little difficult for me to give you a sense of the detention rate on export administration.

Mr. FRENZEL. I think that would be a good thing to have that broken down. In the meantime, we will also go out and scout up and see what kind of complaints we get from the MCL as distinguished from CCL.

Mr. VON RAAB. What we would be happy to do before your hearings, if it would be helpful, is to give you a complete briefing on our Exodus program, Chairman Bonker, or we can do it at the hearing itself, however you would like to handle that. We would make whatever information available that would be helpful to you.

Chairman GIBBONS. We plan to do that at the hearing.

Mr. VON RAAB. OK.

Mr. FRENZEL. Well, Mr. Chairman, that is sort of basically what I am interested in, and I am looking forward to those future hearings because I think we have got some real trouble. I think we have been giving customs agents and Commerce personnel an education at the expense of American business and labor. And I think we can run this program a heck of a lot better or maybe find another program that would do the job.

We are all concerned about the security needs of our country. On the other hand, we have got to keep people working, too.

Thank you, Mr. Chairman.

Chairman GIBBONS. Well, before I recognize Mr. Pease, there are a number of paradoxes that are so apparent here today. When we are getting ready to spend \$5 to \$7 billion on a jobs program and we have got an agency that is, in my opinion, understaffed, and all we are doing is making people mad at the Government and cussing the Government and interrupting our trade functions, which are in sad enough shape right now, and we are getting ready to spend \$5 to \$7 billion on a jobs program, it worries me.

Mr. Pease.

Mr. PEASE. Mr. Chairman, I would just like to ask permission of the Chair to submit some questions in writing to the Customs Service.

Chairman GIBBONS. Yes, sir. Without objection, that is ordered, and we will send those in.

[The questions and answers follow:]

Question. What are the various kinds of identification that 807 and FTZ items can receive with respect to foreign and domestic content and how does Customs enforce this identification for accuracy?

Answer. With respect to item 807 the country of assembly must be marked on the completed article. For example, American made watch cases shipped abroad to be combined with a European-made bezel in a foreign country must be marked with the country of assembly. The American made caseback is substantially transformed into a new and different product, and must be marked with the country of assembly. FTZ items can also be substantially transformed and when so transformed need not be marked. They remain unmarked if transformed as Customs cannot authorize a "Made in U.S.A." legend.

Question. Does Customs include the value of labor in determining the amount of foreign content in 807 and FTZ items, and (a) How is it calculated?

Answer. Customs includes the value of labor performed abroad by the foreign assembler in determining the dutiable value of merchandise entitled to 807 treatment. The value of the labor included is the actual labor cost incurred by the assembler in producing the goods, plus the cost of fringe benefits. These costs are taken from the foreign assembler's books.

We assume that the question relates to the processing of foreign merchandise in a foreign trade zone located in the United States. The value of labor and other processing costs performed in the foreign trade zone are not included in the dutiable value of the foreign merchandise. If the labor costs were needed by Customs, they would be the labor costs actually incurred by the processor, plus the cost of fringe benefits, as reflected on the processor's books.

Question. Does Customs include the value of labor in determining the amount of foreign content in 807 and FTZ items? How does it affect marking for re-entry?

Answer. Yes, it does as labor is definitely a value component.

It does not affect marking for re-entry into the United States. The rules governing marking are not controlled by the addition of labor as a single factor. The country of assembly would still control the marking. The rules of origin hold that the country of assembly must be marked on the item as the country of origin.

Question. What is the definition of Tangible and Intangible Assists?

Answer. The terms "Tangible assist" and "Intangible assist" were used in Customs rulings under the value law in effect prior to the Trade Agreements Act of 1979. They were not defined in statute or regulation.

A tangible assist is a material or physical object, such as a tool, die, or mold, or machinery, used in the production of imported merchandise, and furnished to the foreign producer free of charge or at less than its full value. An intangible assist is technical know-how required in the production of the imported merchandise, and furnished free of charge or at less than its full value. Research, development, engineering, design, and artwork are examples of intangible assists. These terms were not defined in or used in the new value law which became effective July 1, 1980 (Sec. 402, Tariff Act of 1930, as amended by the Trade Agreements Act of 1979), or in the Statement of Administrative Action adopted by the Congress. The new value statute does, however, contain a definition of the term "assist" (Sec. 402(h)(1)(A), Tariff Act of 1930, as amended by the Trade Agreements Act of 1979).

Question. What office in Customs is responsible for coordinating 806 and 807?

Answer. The Office of Commercial Operations is responsible for coordinating any policy and operations guidance pertaining to 806 and 807. Any inquiries regarding 806 and 807 can be forwarded to the Assistant Commissioner (Commercial Operations).

Chairman GIBBONS. Let me see if I understand this whole export control thing. Commerce makes the decision, in consultation with the Defense Department and other Government agencies, on what is exportable, and they issue a license. Now, does Commerce actually have people wandering around on the docks and the airfields?

Mr. VON RAAB. No, sir, the Commerce Department right now has only five inspectors in Kennedy Airport that do this. I am not quite sure what they do, but they are all trained by customs inspectors and they wander off on their own and we really don't hear much of what they are doing.

They are hiring a number of agents or investigators who will work out of centers in Washington, I guess, San Francisco and Los Angeles, who would do investigative work, who would actually knock on the doors of manufacturing operations and shipping operations and look into possible infractions. But that is it. That is the totality of their enforcement.

Chairman GIBBONS. Five people?

Mr. VON RAAB. Five people in the inspectional side and about 20 to 30 on the investigative side.

Chairman GIBBONS. All right. And yet Commerce says, "Customs, you go out and enforce this law, but we are not going to give you a list of what we have licensed." Is that it?

Mr. VON RAAB. No; that is not it. The kind of information we are looking for from the Commerce Department is a list of people who have been refused licenses, the kinds of goods that licensees typically get refused on. In other words, information that the Commerce Department comes by in the normal course of its licensing exercise that we feel would make it easier for us to spot violators through the use of intelligence or information rather than just opening crates on the docks. That is the kind of information that we are looking for.

Chairman GIBBONS. You have got a number of crates moving across the dock at an airport or a seaport and they have got a marking on the outside, "Export Administration License Number So and So." How are you going to tell whether that is—

Mr. VON RAAB. We can't. We have to call it in if we think it is a sensitive shipment and actually have someone pull the license. What we would like is to have a Xerox copy of the license with it

so we wouldn't have to call in, but the Commerce Department has not found that a good idea.

Chairman GIBBONS. Why?

Mr. VON RAAB. I believe their answer was given in terms of an inconvenience to the business community to have to provide a Xerox copy of a license with the shipment.

Mr. BONKER. If the chairman would yield a moment, I think we have a problem of turf here, and I think the Commerce Department is a little bit reluctant to turn everything over to you at a time when you are attempting to expand your own authority in this area, and that is why I think it is desirable to have a joint appearance by you and Commerce and the Department of Defense.

Mr. VON RAAB. I agree.

Mr. BONKER. We can sort these things out and see what information you need from Commerce for your seizure work. You are treading upon their jurisdiction, according to them, and it is a classic example. But the real victims are U.S. businessmen who are trying to survive in a fiercely competitive world economy.

Mr. Frenzel is right. You hear the complaints. You may not hear them but they are in my editorials, and just a small bit of attention in Seattle and Portland created all kinds of activity and attention on this matter. So perhaps in these joint hearings we can work this out, because there is no need to pour in \$8 million, \$20 million, \$35 million when all the exporter has to do is give you a copy of the export license with their shipping documents.

Mr. FRENZEL. Well, if the gentlemen would yield, here is a guy who has waited probably 16 months to get his darned export license, and probably had to negotiate three different letters of credit and hold his customer's hand long beyond the time he should have had to. Then he has got to send an extra document along to Customs, who will probably lose it and will then hold up the shipment.

All that will do is cause more delays if we have to put another piece of paper in the game that a group who doesn't know anything about export licenses will then scrutinize and then decide that the license wasn't proper or that something is wrong there. If I were Commerce, I would never let go of that thing. Once they have issued them, I don't think I would do that.

Mr. BONKER. If we have one department that has the full authority for administration, enforcement, and seizure, then Customs really doesn't have to get involved at all. There are several ways that we can go about this. As legislators, it is our responsibility to try to make this thing work a little more efficiently, because obviously the executive branch, regardless of who is President, is not coming to terms on this matter.

Mr. VON RAAB. This subject was treated in some detail, as you may know, before Senator Garn just 2 weeks ago.

Mr. BONKER. Well, Senator Garn wants to set up a whole new agency, and none of you will have any of the action if his bill passes.

Chairman GIBBONS. This concludes our hearings for this morning.

Mr. FRENZEL. Mr. Chairman, may I ask a couple of other questions?

Chairman GIBBONS. Go ahead.

Mr. FRENZEL. I want to tell rather than ask the Commissioner that last year it became necessary for you in the conduct of your work to make request for certain new authorities for the Customs Service, including the authority for a warrantless search and some other items. You did not bring them to this committee, and some of them were not under the jurisdiction of this committee.

We assumed that they were done the way they were done because of an emergency where you considered the need was vital. In the future I think that this committee believes, and believes rather strongly, that it wants to have those kinds of things brought to it, even those with which it has to share jurisdiction with other committees.

I know we were able to work something out with the other committees when you brought that forward, but now that the President has vetoed that bill in which they were contained, we would expect those things to come to this committee at least for some advisory and consultative work, and I hope the Service understands that.

Mr. VON RAAB. Absolutely. Since the veto of that forfeiture bill, we have begun to develop another package, and we are working with Frank Phifer and Dave Rohr on the development of that package, and as soon as it makes its way out of the labyrinthine halls of the Customs Service and the Treasury Department and OMB, we will certainly be working very closely, and I will look forward to that.

Mr. FRENZEL. I have one other question. Your Office of Investigations does a good deal of investigating. However, it doesn't do a lot of indicting, and less convicting. Why do you have so many investigations if you have such a rate of indictments or convictions?

Mr. VON RAAB. I can give you a brief answer to that.

Mr. FRENZEL. Are we scattershooting again, like we inspect baggage, just picking out a few at random to rattle the cage, or are we being overzealous?

Mr. VON RAAB. I don't know what a proper ratio of convictions, arrests, indictments, et cetera to an investigation or investigator is. We have recently reorganized the Office of Investigation to put more control at the regional level. We expect to see more production, if you want to call it that, out of the investigators, but if you wouldn't mind, I would be happy to try to construct a coherent written answer to that question.

Mr. FRENZEL. Yes; I would prefer to have it. If you look at the indictments, you would think, my God, the country is so honest it is hard to believe. If you would look at the investigations, you would say it is so dishonest it is hard to believe. If you could give us a written answer for the record, I would like that.

[The information follows:]

Question. What is the ratio of the following?

Convictions to investigations, Convictions to investigators, Arrests to investigations, Arrests to investigators, Indictments to investigations, and Indictments to investigators.

Answer. For Fiscal Year 1982 we had the following statistics in the categories for which information was requested: Total Number of Agents On-Board End of fiscal year 1982, 631; Total Number of Criminal Investigations Closed fiscal year 1982,

3545; Total Number of Convictions fiscal year 1982, 556; Total Number of Arrests fiscal year 1982, 680; and Total Number of Indictments fiscal year 1982, 587.

These figures produce the following ratios: Convictions to investigations, 0.151:1; Convictions to investigators, 0.881:1; Arrests to investigations, 0.192:1; Arrests to investigators, 1.071:1; Indictments to investigations, 0.106:1; and Indictments to investigators, 0.930:1.

The above figures are somewhat misleading and deserve explanation. In the total number of cases closed our tracking system has included collateral investigations, that is investigations conducted in support of a principal investigations. No indictments, arrests, or convictions are credited to collateral investigation. Of the total number of investigations conducted fully two thirds are collateral investigations. In regard to the total number of indictments, arrests and convictions listed, it should be noted that many investigations are initiated after an arrest by either an Inspector or Patrol Officer. These investigations follow-up on leads developed from the arrest. Again the indictments, arrests and convictions that are associated with the investigation, but attributable to the Inspector and Patrol Officers are not credited to the investigation or the investigator. This avoids double counting of statistics. The better measure of our productivity would be to look at the indictments, arrests and convictions attributable to all Customs Officers not just those resulting directly from investigations. It should be noted that arrests, indictments and convictions rarely occur in the same fiscal year as an investigation is closed.

Mr. FRENZEL. I thank the chairman.

Chairman GIBBONS. This concludes our morning session. The Chair is in deep trouble. We are already keeping the Canadian Ambassador cooling his heels. We have a luncheon engagement with him, I would remind the members, and I hope as many of you as possible will attend.

We are going to resume this afternoon, hopefully at 2. I would encourage all of those who are on our list of witnesses to keep in close touch with the staff up here. Obviously, we are running way behind time. We may have to continue these hearings on over.

We will try to begin again, though, at 2. This concludes, though. We won't call the Customs Service anymore.

[Whereupon, at 12:15 p.m., the hearing was recessed, to reconvene at 2 p.m. the same day.]

AFTERNOON SESSION

Chairman GIBBONS. The meeting will come to order.

Our next witness is from the U.S. Trade Representative's Office, Mr. Dennis Whitfield, Executive Assistant to the U.S. Trade Representative.

Mr. Whitfield, we are glad to have you. You may proceed as you wish. Your entire statement will be included in the record and you may summarize.

STATEMENT OF DENNIS WHITFIELD, EXECUTIVE ASSISTANT TO THE U.S. TRADE REPRESENTATIVE, ACCOMPANIED BY JOHN P. GIACOMINI, DIRECTOR, OFFICE OF MANAGEMENT, OFFICE OF THE U.S. TRADE REPRESENTATIVE

Mr. WHITFIELD. Thank you, Mr. Chairman.

I am pleased to be here today to discuss with you and your committee our resource needs for 1984 and to respond to any questions that you may have.

With me is John Giacomini, our Director, Office of Management. Ambassador Brock asked me to convey his best wishes and regrets that he could not be here with you.

Mr. Chairman, in the last session of Congress the authorization bill for this fiscal year was passed, and I wish to thank you and your staff for your assistance in this effort. The bill gave us the authority for an additional Deputy U.S. Trade Representative. This means that we will have two deputies in Washington and one in Geneva.

One of the deputy positions in Washington will be filled by Ambassador Michael B. Smith, who has been head of our Geneva office for the past 3 years. He will replace Ambassador Dave MacDonald, who has resigned effective March 31 to return to private law practice. We are considering candidates for the second and third deputy positions at this time.

The bill also authorized an additional \$1 million over our current appropriation of \$10.1 million for fiscal year 1983. As you know, we submitted a supplemental pay request to OMB for \$409,000. This has OMB's full support and is included in the fiscal year 1984 Presidential budget.

Our pay supplemental request is needed to cover the 4 percent pay raise, lifting of the pay cap and medicare contributions.

Since our appearance before this committee at last year's budget hearings, we have reorganized the agency internally, as illustrated in the organizational chart which is attached to this statement. We have created units which are responsible for U.S. trade policy toward Europe and Japan, East-West and nonmarket economies, and we have put additional emphasis on trade policy development and coordination, which includes services and interagency coordination. The chart will again require updating with the addition of the third deputy.

In the coming weeks Ambassador Brock will be meeting with members of this subcommittee as well as members of the Senate Finance Committee to discuss how best to utilize the third deputy and how it will affect our internal management. We believe the addition of the third deputy and an internal reorganization accompanying it will make the best use of limited personnel and funds so that we can fulfill our Presidential and congressional mandates.

And as we indicated last year, we are using every means possible to increase productivity and managerial effectiveness with the resources we have been given. In this respect I might add that several welcome changes in the USTR's authorization will be helpful in holding down costs this year.

In particular we expect that the new provision allowing for reimbursement for certain types of travel, which would possibly cost us \$30,000 to \$40,000 more, will allow us to accept the speaking invitations. As you are aware, travel is one of USTR's single largest expenditures and one that, by the nature of the agency's mandate, is difficult to reduce without adversely affecting our international negotiations.

Since fiscal year 1980, we have been held to 131 positions composed of two ceilings: 113 permanent and 18 temporary. Beginning this fiscal year we are allowed to operate under one ceiling of 131 permanent positions or work-years. We were given 2 additional work-years for this fiscal year only for special intern exchange programs, which raised our total to 133.

By having one ceiling, this will allow us to create greater permanence for staff who are essential to the agency. This was the intent of the trade reorganization in late 1979. I might add, however, that this no-growth trend may continue through 1984 in spite of rising workloads.

To supplement our permanent staff and to hold down personnel costs, we have been successful in establishing a volunteer university intern program. At this time we have approximately 20 students representing 9 universities who assist with various research tasks.

Also we have three professional level volunteers. Last fiscal year we estimate that this program saved us about \$100,000. We were able to effect other savings by establishing a speedy computer communications link with Geneva, by reducing guard service, by sharing data resources, and by acquiring details from other agencies on a nonreimbursable basis as we have in the past.

For fiscal year 1984, we are requesting a budget of \$11.647 million, which is \$1.138 million or 11 percent over the fiscal year 1983 base level budget of \$10.509 million. Our request represents a maintenance budget that will partially offset rising, uncontrollable costs. For example, \$673,000 or 59 percent of our total requested increase is for a rent increase initiated by GSA.

A summary of our resource needs for fiscal year 1984 is also attached to this statement.

Any reduction of this total request will seriously affect our capability to do the job assigned to us.

I wish to assure the committee that we are continuing to exercise tight controls over expenditures, especially for overtime, travel, and procurement, and that our senior staff has a direct role in this control process.

Mr. Chairman, we believe that our request is a reasonable one and conforms with the need for national budget constraints even with rising workloads. With the requested resources, we will be able to pursue the administration's and Congress commitment to economic growth and strengthening the Nation's economy.

At this time we will be pleased to respond to any questions that you might have.

[The prepared statement follows:]

STATEMENT OF DENNIS E. WHITFIELD, ASSISTANT U.S. TRADE REPRESENTATIVE FOR ADMINISTRATION

Mr. Chairman, I am pleased to appear before you to present our resource needs for fiscal year 1984 and to respond to your questions. Ambassador Brock regrets that he cannot be here since he had prior commitments. With me is the Director of our Office of Management, John Giacomini, and our Director of Congressional Relations, Bill Maroni.

Mr. Chairman, in the last session of Congress our authorization bill for this fiscal year was passed. I wish to thank you and your staff for your assistance in this effort.

The bill gave us the authority for an additional Deputy United States Trade Representative. This means that we will have two deputies in Washington and one in Geneva. One of the deputy positions in Washington will be filled by Ambassador Michael B. Smith, who has been the head of our Geneva office for the past 3 years. He will replace David MacDonald who has resigned effective March 31 and who will return to private practice. We are considering candidates for the second and third deputy positions. The bill also authorized an additional \$1 million over our current appropriation of \$10.1 million for fiscal year 1983.

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In the coming weeks, Ambassador Brock will be meeting with members of this subcommittee as well as members of the Senate Finance Committee to discuss how the third deputy USTR will be utilized and how the new position will affect our internal management. We believe that the addition of the Third Deputy and our reorganization will make the best use of limited personnel and funds so that we can fulfill our Presidential and congressional mandates. And, as we indicated last year, we are using every means possible to increase productivity and managerial effectiveness with the resources we have been given. In this respect I might add that several welcomed changes in USTR's 1983 authorization will be helpful in holding down costs this year. In particular, we expect that the new provision allowing for reimbursement for certain types of travel which would possibly cost us \$30,000 to \$40,000 more, will allow us to accept speaking invitations. As you are aware, travel is one of USTR's single largest expenditures, and one that by the nature of the agency's mandate is difficult to reduce without adversely affecting the United States effectiveness in international negotiations.

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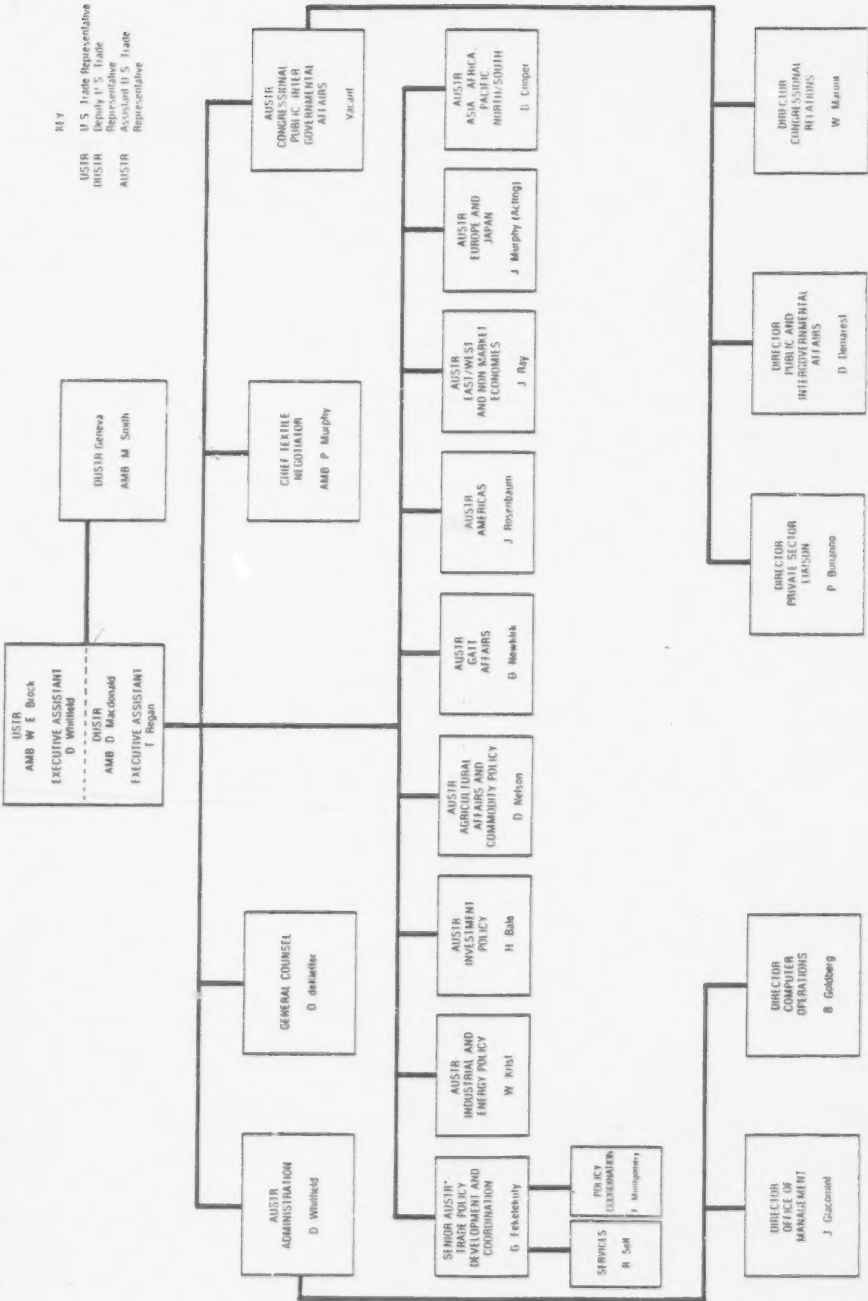
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I would be pleased to respond to your questions.

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE (USTR)



*COMB. EXECUTIVE COMMITTEE

USTR-1

16 March 1987

OFFICE OF THE U.S. TRADE REPRESENTATIVE, SUMMARY AND DESCRIPTION OF REQUIREMENTS BY OBJECT CLASS

[Dollar amount in thousands]

Object classification	Appropriation—salaries and expenses					
	1983 appropriations		1984 estimates		Increases (+) or decrease (—)	
	Positions	Amount	Positions	Amount	Positions	Amount
11.1 Full-time permanent positions	115	\$4,874	113	\$4,903	— 2	+\$29
11.3 Positions other than full-time permanent (1040's, intermittents, part-time, consultants, driver-messengers for Geneva)		589		589		+ 0
11.5 Other personnel compensation (overtime, differentials, SES awards, merit increases)		166		166		0
11.8 Special personal services payments (reimbursable details)		904		905		+ 1
Total personnel compensation	115	6,533	113	6,563	— 2	+ 30
12.1 Personnel benefits (health, retirement, insurance, allowances)		695		699		+ 4
21 Travel and transportation of persons (travel, per diem, miscellaneous expenses)		813		876		+ 63
22 Transportation of things (transport of household and personal effects to Geneva; U.S. storage of goods)		10		36		+ 26
23.1 Standard level user charges (rent for office space in Washington)		434		1,107		+ 673
23.2 Communications, utilities and other rent (office and residence rents—Geneva, utilities, Xerox, telephone, postage, teletype, computer time)		695		950		+ 255
24 Printing and reproduction (Federal Register, stationery, forms, reports)		107		156		+ 49
25.1 Other services (administrative support—Geneva, personnel and vendor contracts and office machine maintenance, transcribing and translation services, career development, language training, clearances)		997		966		— (31)
25.2 Representation		60		60		0
26 Supplies and materials (office supplies, computer expendables, supplies)		119		160		+ 41
31 Equipment (office equipment D.C. and Geneva, computer hardware and software)		46		74		+ 28
Total requirements		¹ 10,509		11,647		+ 1,138

¹ Includes pay supplemental of \$409,000.

Note.—Employed Dec. 31, 1982—112.

Chairman GIBBONS. I have looked over your budget and I think it is reasonable.

Mr. PEASE, do you have any questions for the Trade Representative?

Mr. PEASE. Mr. Chairman, yes, I do, just one.

Were you here this morning?

Mr. WHITFIELD. Yes, sir.

Mr. PEASE. So you are aware of my interest in item 807 on the trade schedule.

Mr. WHITFIELD. Yes, sir.

Mr. PEASE. Are you familiar with that at all?

Mr. WHITFIELD. No, sir. As a matter of fact, I asked someone when you brought that up what it was you were talking about.

Mr. PEASE. I was just wondering if the USTR has done any analysis on the impact of item 807 on jobs in this country or the loss of capital investment.

Mr. WHITFIELD. Not specifically on 807, to my knowledge, but we will be glad to check into that and provide you a written response.

Mr. PEASE. While you are at it, look at item 806.3 and item 807 and then give me any analysis you have or can rustle up on the impact on jobs in the United States from those sections.

Mr. WHITFIELD. I will be glad to do that.

[The information referred to follows:]

U.S. DEPARTMENT OF LABOR,
Washington, D.C., April 27, 1983.

Miss DIANA WOOD,
Office of Congressman Don Pease,
Washington, D.C.

DEAR MISS WOOD: This letter reviews the findings on the impact of tariff Items 806.30 and 807.00 on domestic production and employment. As I suggested to you in our telephone conversation, our office has not conducted any extensive research in this area. We did fund a pilot study with Arthur D. Little, Inc. However, this 1978 study concentrated on the differences in profitability of domestic and foreign production of men's dress shirts and dress slacks, both under the existing and under the hypothesized elimination of the 806.30 and 807.00 tariff provisions. The study concluded that the elimination of these provisions would increase the profit differential in favor of total production abroad, particularly for the goods that are currently produced in U.S. unionized plants.

The Arthur D. Little study did not attempt to estimate the impact of the elimination of these tariff provisions on U.S. employment directly. The study did suggest, however, that the increased profit resulting from the shifting of production abroad was likely to result in a reduction of U.S. production of these two commodities, with a concomitant negative effect on U.S. employment, especially of employment in unionized plants. The authors of this study were quite careful to point out that their findings need not extend to the production of other commodities.

Unlike the 1978 pilot study, the 1970 study of the U.S. Tariff Commission examined the conditions in a number of industries and addressed the U.S. employment effects directly. The Commission's study concluded that repeal of the 806.30 and 807.00 provisions would have adverse effects on the U.S. trade balance and on domestic employment.

Using a different methodology, the J. M. Finger (Treasury) study of 1976 came to similar conclusions. Finger found that the gains in U.S. assembly from the repeal of these provisions would be more than offset by the loss of U.S. exports and domestic production of components currently used in foreign assembly.

Not having been an active participant in these research efforts, I am not in a position to either reject or support their findings. One thing is clear—all such studies rely on assumptions about the relationship between the increase in domestic production costs and exports, imports, domestic production and employment. These findings are therefore, subject to error. On the other hand, all three (3) studies, though using different data samples, different periods and methodologies, concluded, either explicitly or implicitly, that repeal of the 806.30 and 807.00 provisions would hurt rather than aid domestic production and employment, especially the production and employment in unionized plants.

Sincerely,

HARRY J. GILMAN,
Senior International Economist,
Foreign Economic Research Division, OIEA.

Mr. PEASE. That is all I have, Mr. Chairman

Chairman GIBBONS. Thank you, Mr. Pease.

Thank you, Mr. Whitfield.

Our next witness is from the U.S. Department of Labor, Ms. Joyce Kaiser. Apparently she is not here.

The International Trade Council, Dr. Peter Nelsen.

Dr. Nelsen, please summarize your statement, and your entire statement will be included in the record.

**STATEMENT OF PETER NELSEN, PRESIDENT AND CHAIRMAN,
INTERNATIONAL DEVELOPMENT INSTITUTE**

Mr. NELSEN. Thank you. We appreciate the opportunity to present our testimony on the fiscal year 1984 budget for commerce. We will summarize the statement for the record.

I had the privilege of hearing you, Mr. Chairman, before Senator Packwood's committee a couple of months ago on S. 2300, and your eloquence and knowledge of the subject is hard to match. I have the feeling that we are sort of preaching to the choir in what we are about to present.

Chairman GIBBONS. Thank you.

Mr. NELSEN. Nevertheless, the trend toward protectionism compels vigilant effort to be maintained to expand free trade, that is why we are here, not just the rhetoric that each administration has expounded for the last 30 years, but new and innovative programs to expand exports are needed.

The strength of the United States, contrary to much public opinion, is not based on military strength, but rather on its economic strength. Without economic strength there can be no sustained military strength; therefore, a commitment to international military strength without a commitment to international economic strength is illogical.

Our share of the world market has dropped from 23 percent to 14 percent in the last two decades. Much of our unemployment would be eliminated if we increased exports. The International Trade Council has sponsored Tradexpo and the International Development Institute, a nonprofit export trading company, in fact the first one to register under the new ETC Act, with an international trade center, research center and educational center on a year round basis, covering the 12 major development technology areas in which we have our best export potential.

Our written testimony requests a \$5 million matching grant or \$10 million direct Government loan. This is a difficult year to request funding, but since we started developing the Tradexpo concept 6½ years ago, there has never been an easy year.

I must say that if you only funded Government programs that had as good a cost benefit ratio as Tradexpo, you would probably save enough to balance the budget.

We ask that the committee, in its report language or otherwise, direct the Secretary of Commerce to make the \$5 million appropriation for startup expenses. This will be a one time only appropriation in that the project is designed to be totally self financing, with a revenue from the Trade Center funding the education and the research centers.

Over the first 5 years the project will develop into a \$450 million project, with 5,000 participating producers. It will generate 12,000 jobs directly, and an estimated 600,000 jobs around the country based upon additional export volume of about \$20 million by the end of the fifth year.

The Commerce Department's International Trade Administration, according to the verbiage in the fiscal year 1983 budget, is supposed to "encourage and assist U.S. business to export by conducting market research, overseas trade promotion events, by as-

sisting U.S. firms to compete in major overseas projects and product sales, by providing the U.S. industry with trade leads and other export trade information," and here we underline "by providing grants to qualified applicants to assist them in developing implementation of small business international marketing programs."

This is exactly what Tradexpo does. Thus, the statutory authorization exists to fund the project. The Senate Small Business Committee held hearings and conducted a survey about 6 months ago on why small companies are not getting involved in exporting. They surveyed 6,000 companies, and had 1,200 that responded. We were asked by the committee to do an analysis of that response.

The analysis indicated that 87 percent of the problems presented as to why the small companies were not getting involved in exporting would be solved by the Tradexpo system if they participate in our program. Again quoting from the fiscal year 1983 budget verbiage, the Foreign Commercial Services disseminates commercial marketing information in the U.S. business community and provides direct assistance and counseling to U.S. business on export import procedures and regulations, and here we exclaim again "supports export promotion events held in the United States." That is exactly what we are doing.

The Foreign Commercial Service has representation in only 66 of the 167 countries around the world. Tradexpo will provide a complete export service and assist programs for both exporters and buyers from all 167 countries. Thus, we find that it is a more effective program designed specifically to meet today's needs.

We thank you very much, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF PETER NELSEN, PRESIDENT AND CHAIRMAN, INTERNATIONAL
DEVELOPMENT INSTITUTE

Mr. Chairman and Members of the Committee. I am Dr. Peter Nelsen, an economist, President of the International Trade Council, and Chairman of the International Development Institute (IDI). IDI is a research and educational organization dedicated to the development of international trade and the transfer of appropriate technology to meet basic human needs.

We appreciate this opportunity to appear before the Subcommittee on Trade and to solicit your support for a program which would help increase U.S. exports, increase employment and balance our trade deficit, and aid many small- and medium-sized businesses join with the large companies in entering or expanding their exports.

Many of our country's leaders, in both political parties, have called for the private sector to take the lead in export and overseas development. For some years now, IDI has been working to enable private enterprise to do just that. With your indulgence, I will outline our proposal for a new and highly innovative private enterprise program of export development, known as TRADEXPO. This proposal has been refined and developed over the past six and one-half years, in consultation with leaders in the industries it would serve, as well as with government agencies and academia.

Tradexpo is designed to be a permanent, year-round international trade center, encompassing all segments of basic human needs, including food, housing, energy, transportation, health, and education. The 200,000 foreign buyers who come to the United States each year would be able to find all the products and services that they need in one place, open to them 300 days a year.

What makes Tradexpo even more unique is that revenues from it would support two other components of IDI, an Educational/Conference Center and a Research Center. The educational program would be built around monthly seminars which would be repeated once each year. Buyers, educators and government officials from some 167 countries around the world would be invited to these seminars which would be devoted to the twelve major categories of economic development and tech-

nology pertaining to meeting basic human needs and improving the quality of life. At the Research Center, applied research and technology from our best land grant universities and research institutions would be demonstrated in full-scale farming and production units on 3,000 acres of land located within an hour of Washington.

Thus, the visitors would not only learn about the latest technology, they would see it demonstrated in actual production units. They would also have the option of either purchasing these full-scale units as turn-key projects or buying the necessary components at the Tradexpo.

Each year, as I have mentioned, thousands of official foreign visitors come to the United States, representing their governments, private agricultural enterprises, or purchasing interests in their home countries. These visitors are invited, registered and escorted by official agencies of various departments of our government, such as the Departments of State, Agriculture and Commerce; the U.S. Agency for International Development; and the United Nations Food and Agricultural Organization.

With its close proximity to Washington, D.C., and to the Beltsville Agricultural Research Center, TRADEXPO would provide a natural starting point for these visitors to obtain an overall view of the state of the art in U.S. agriculture and would be an ideal first point of contact between TRADEXPO exhibitors and their potential customers. Tradexpo will, in cooperation with the relevant government agencies, continuously conduct intensive publicity and informational campaigns to attract the more than 200,000 known overseas importers of U.S. products to visit the exhibit.

While the trade center would be available to all producers, large and small, of products and services relating to basic human needs, it would be of particular benefit to small- and medium-sized companies who are ready to enter the export market, but who lack the experience or distribution channels that the larger companies already have.

IDI was the first organization to register under the Export Trading Company Act. It will not compete with other exporting companies but rather it will, as a non-profit service institute, enable new and experienced businesses to attain the same access to export markets as their overseas competitors; to enable all businesses, large and small, to expand the scope of their markets; and to promote overseas development in the private sector which in turn will reduce the need for foreign aid assistance by government agencies.

Research and transfer of appropriate technology to improve overseas agricultural production present great opportunities for American enterprises to prosper on a contract or joint venture basis. Moreover, improvement in overseas productivity has historically led to a subsequent increase in the export of U.S. products and services.

For example, when we set up a poultry operation overseas, we create an ongoing market for American feed grains; equipment such as egg hatchers, baby chicks, egg cartons, poultry processing components; and the like. The same scenario applies to many other industries.

The major growth potential for U.S. exports lies in Third World markets, where more than 150,000 U.S. companies have export capabilities, but only a small percentage of these companies are able to take advantage of the opportunities. We believe developing this potential through the Institute's trade and development programs would significantly reduce our foreign trade deficit. At the same time, the export of U.S. technology on a company-to-company basis overseas would assist Third World countries with their economic development and create better trading partners for the United States.

TRADEXPO is designed to provide full export services to participating exhibitors so that they might achieve economies of scale that would permit them to export goods and services profitably at a competitive unit cost.

The U.S. Senate Small Business Committee performed a survey in July 1982 of 6,000 small businesses regarding their reluctance to enter the export market and to shed light on the astounding fact that just 200 companies presently do 80% of U.S. exports.

IDI performed an analysis at the request of the Committee on how the TRADEXPO export trading system would solve the problems presented by the 1200 respondents to the survey. The result was that 87% of all the reasons and problems given for not exporting would be solved for the companies if they participated in the TRADEXPO system.

In summary, the advantages of our proposal are obvious. Instead of producers having to take their commodities abroad to 160 countries, as an ever-growing cost and at a correspondingly negative drain on our balance of trade, buyers from these countries would come here to learn the latest technologies, see the latest research and methods demonstrated, and most importantly, buy the commodities they need,

with all the necessary assistance, including banking facilities, to complete a transaction on the spot.

We anticipate that 700 acres dedicated to the project at the beginning would soon expand to 3,000 acres, and that within five years we would have 5,000 exhibitors.

TRADEXPO, along with its companion education/conference and applied research centers, is projected to generate 12,000 new jobs in the Institute itself and approximately 30,000 jobs for each billion dollars worth of exports of the companies that it would serve.

We are asking for a one-time-only matching grant of \$5 million, or direct loan of \$10 million, to cover a portion of the start-up costs. Once the program is underway, we will fully supported by private enterprise and our controlled expansion would be governed by the level of this support.

We are requesting you in your report language, to direct those pertinent agencies with export budgets to make these funds available.

TRADEXPO would fill a critical need and serve as a model for other new private export initiatives. We submit herewith an information kit to provide further detail. Thank you for your kind attention.

Chairman GIBBONS. Thank you, Doctor. We appreciate your interest in developing trade and we appreciate your private initiative.

Mr. Pease, do you have questions?

Mr. PEASE. No, I don't, Mr. Chairman.

Chairman GIBBONS. Thank you, sir.

Mr. NELSON. Thank you, Mr. Chairman.

Chairman GIBBONS. Our next witness is from the U.S. Department of Commerce, Mr. Lionel Olmer.

[No response.]

Chairman GIBBONS. Next we have a panel from the AFL-CIO, Mr. Koplan, and from the United Automobile Workers, Mr. Page, and from the United Steelworkers, Mr. Sheehan.

First, gentlemen, we welcome you all back. We will be glad to have you start, Mr. Koplan.

STATEMENT OF STEPHEN KOPLAN, LEGISLATIVE REPRESENTATIVE, DEPARTMENT OF LEGISLATION, AMERICAN FEDERATION OF LABOR & CONGRESS OF INDUSTRIAL ORGANIZATIONS

Mr. KOPLAN. Thank you, Mr. Chairman. I will not read my full statement. I ask that it be included in its entirety in the record.

Chairman GIBBONS. Yes, sir, it will.

Mr. KOPLAN. Mr. Chairman, the AFL-CIO appreciates this opportunity to oppose the administration's budget proposals for fiscal year 1984 that include a swift end to any possibility of a trade adjustment assistance program.

After 2 years of relentless attacks which have emaciated this program, the administration now seeks to convince the Congress that the program should terminate this year when Americans are suffering massive injury and job losses from imports.

Trade adjustment assistance is needed now more than ever. The tragic fact is that U.S. trade policy has resulted in soaring numbers of unemployed American workers since the passage of the Trade Act of 1974. The main industries affected during this period were auto, apparel, steel, footwear, electronics, fabricated metal products, and textiles. Even this does not begin to tell the full story, since the figures do not include those workers who lost their jobs with independent suppliers of parts and services.

Many thousands of these suffering unemployed workers have no hope of ever returning to the jobs they once held. The commitments made to these workers in the Trade Acts of 1974 and 1979 must be honored. Continued unemployment and recession make it clear that decisive and positive action by this Congress must be taken immediately to prevent this administration from breaking the long-standing commitments made to workers who lose their jobs because of imports.

It is sad that we must come to the Congress to plead that this body carry out its promise to provide a measure of financial, relocation, and job training assistance under the original legislation. Particularly sad is the fact that the harm that we argued would come from this Government's trade policies has come to pass, and now that small measure of aid that the legislation would provide to its victims is to be strangled.

We want it understood that we do not view trade adjustment assistance as a substitute for a fair trade policy, but at least the promises should be honored.

We commend, however, the efforts of Representative Pease and others who have introduced H.R. 925 to provide some meaningful training for workers who have lost their jobs, their wages, their medical benefits, their seniority, their homes—in short, whatever security had been achieved in their worklife.

We believe that the proposals incorporated in H.R. 925 are modest steps to partially redress some of the injustices inflicted on this program in the last Congress. We urge the subcommittee to reestablish a meaningful trade adjustment assistance program. Therefore, we recommend initially that the subcommittee swiftly adopt the following changes as provided in H.R. 925:

First, workers should be entitled to training assistance, which the Trade Act of 1974 promises. H.R. 925 changes the current provisions of the Trade Act of 1974 to state that the Secretary shall approve training instead of may approve such training. While the AFL-CIO supports the restoration of the cash benefit program, we certainly support the proposals to improve training and job search and provide relocation allowances that are included in H.R. 925.

Second, H.R. 925 raises the amount of money available for workers for job search and relocation allowances from the current law, inadequate amount of \$600 to a new amount of \$800. The AFL-CIO supports this position.

We also recommend adoption of the provision in H.R. 925 that calls for a minimal supplemental assistance benefit of \$15 for each day that a worker participates in training, but is not eligible for trade adjustment allowances during any or all of the training period.

Third, H.R. 925 generally restores the trust fund concept originally contained in the Trade Act of 1974, thus calling for trade adjustment assistance funding from the collection of customs duties in imports. Thus, the money for training, job search, and relocation allowances will not require struggling through the regular authorization and appropriation processes.

Fourth, the Federal-State Extended Unemployment Compensation Act of 1970 under H.R. 925 would be amended by adding a new clause, a new improved definition of suitable work for trade

adjustment assistance purposes. The new test would be "work of a substantially equal or higher skill level than the worker's past adversely affected employment" and "wages for such work at not less than 80 percent of the individual's average weekly wage for his most recent base period." These changes are long overdue.

In addition, the AFL-CIO urges the subcommittee to give serious consideration to extending the coverage of the trade adjustment assistance program to workers who work for independent suppliers of parts and services. The basic inequity under the law is that those who are now unemployed because imports have cost them their jobs are generally not covered by trade adjustment assistance unless they are employed by a firm which makes an import impacted end product. Coverage is dependent not on what the worker does but on who owns the plant. Parts and services workers should be covered under the same standards that are used for workers who are employed to make the final product.

The AFL-CIO has long urged the extension of benefits to such workers. In sum, all parts and service workers should be eligible for trade adjustment assistance coverage.

We also urge that the law be amended to address the abuse in the current requirements that the worker who is certified as eligible to apply for adjustment assistance must also have had 26 weeks of employment in the last year prior to the layoff because of import injury in order to qualify for adjustment assistance. This requirement was originally put into the law so that there would not be an abuse of the trade adjustment assistance program by qualifying for 52 weeks of benefits, workers who had only worked a few weeks. Instead, the requirement of 26 weeks' employment has been used to deny benefits to workers who had worked for many years but were injured on the job or on sick leave or unjustifiably laid off during the last year of service.

For example, an employee with 20 years' service who was injured on the job and out of work for much of the last year before the plant was shut down now receives no trade adjustment assistance benefit because of the 26 week work requirement. We recommend an exemption from the calculation of the 26 week work eligibility requirement to those weeks a worker has been on workers' compensation. We also urge this exemption from the 26 week work requirement for a worker who has been unjustifiably laid off, but for which the worker is later compensated.

We also recommend immediate restoration of the national standard of 70 percent of lost pay for measuring trade adjustment assistance cash benefit levels.

Mr. Chairman, last year when we testified, you stated that you understood our hostility to the way this program works, and I quote:

It has never worked properly, but because it never has does not mean it ought to be thrown down the drain. It is incumbent upon us to try to straighten it out, and I am hoping we can get the cooperation of the administration to do that, because it would be so much easier to do it that way than to have to try to fight it down to the wire.

It is obvious from the administration's budget request for fiscal year 1984 that we are not getting the cooperation that you had hoped for, and we assure you that we are prepared to fight for a

meaningful program down to the wire. It is inhuman, for example, that a worker should wait for up to 14 months to be certified as eligible.

On numerous occasions in the last Congress the AFL-CIO has made the case for a meaningful trade adjustment assistance program. However, the current budget simply ignores the commitments made in the Trade Acts of 1974 and 1979. This subcommittee has the opportunity to take the first steps to restore and improve the trade adjustment assistance program. Together we can make this program work.

Mr. Chairman, we believe the subcommittee should adopt H.R. 925 as a positive measure to assist workers who have lost their jobs through no fault of their own but rather because of U.S. trade policy. In addition, we call for the adoption of our recommendations for additional improvements as amendments to the bill.

The AFL-CIO also appreciates the opportunity to comment on the administration's fiscal year 1984 budget requests for the U.S. Customs Service and other trade requests. In my prepared statement I comment on what we perceive to be inadequate funding in various of those requests. I urge careful review for the items mentioned and for the variety of statistical and administrative problems which are growing as international trade affects the lives of so many Americans.

In summary, the AFL-CIO believes that the impact of international trade on American workers and their families is too important to be left in the hands of the budget cutters.

I might mention, just today in the Washington Post there was a photograph on page 3 of 3,000 people literally jumping over the counters at the Muhlbach Hotel in Kansas City, Mo., for 250 jobs in that hotel. People want to work, Mr. Chairman. If you ask an American worker whether he or she would prefer to have a job than trade adjustment assistance, the answer would be, "A job," every time.

But a commitment was made in 1974 that is about to be broken. And we feel very strongly that this Congress should prevent that commitment from being broken.

I have with me today Elizabeth Jager, trade economist in our department of economic research. Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF STEPHEN KOPLAN, LEGISLATIVE REPRESENTATIVE, DEPARTMENT OF LEGISLATION, AMERICAN FEDERATION OF LABOR & CONGRESS OF INDUSTRIAL ORGANIZATIONS

The AFL-CIO appreciates this opportunity to oppose the Administration's budget proposals for fiscal year 1984 that include a swift end to any possibility of a Trade Adjustment Assistance program. After two years of relentless attacks which have emaciated this program, the Administration now seeks to convince the Congress that the program should terminate this year when American workers are suffering massive injury and job losses from imports.

Trade Adjustment Assistance is needed now more than ever. The tragic fact is that U.S. trade policy has resulted in soaring numbers of unemployed American workers since the passage of the Trade Act of 1974. For example in fiscal year 1976 there was a total of 47,000 recipients of trade readjustment allowances. Contrast that figure with Administration estimates for fiscal year 1981—a total of 750,000 recipients. The main industries affected during this period were auto, apparel, steel, footwear, electronics, fabricated metal products, and textiles. Even this does not

begin to tell the full story since the figures do not include those workers who lost their jobs with independent suppliers of parts and services. Many thousands of these suffering unemployed workers have no hope of ever returning to the jobs they once held. The commitments made to these workers in the Trade Acts of 1974 and 1979 must be honored. Continued unemployment and recession make it clear that decisive and positive action by this Congress must be taken immediately to prevent this Administration from breaking the long standing commitments made to workers who lose their jobs because of imports.

On August 3, 1982, at the AFL-CIO Executive Council meeting in New York, a statement was adopted that reaffirmed convention support for the program and included a call to "restore Trade Adjustment Assistance for workers who lose their jobs because of imports, and provide the training and relocation aid promised in the Trade Acts of 1974 and 1979."

Most recently, on February 8, 1983, AFL-CIO President Lane Kirkland told the House Committee on the Budget that the Trade Adjustment Assistance Program "must be continued and strengthened to protect and assist workers who have lost their jobs because of government trade policies."

It is sad that we must come to the Congress to plead that this body carry out its promise to provide a measure of financial, relocation and job training assistance under the original legislation. Particularly sad is the fact that the harm that we argued would come from this government's trade policies has to come to pass. And now, that small measure of aid that the legislation would provide to its victims is to be strangled. We want it understood that we do not view trade adjustment assistance as a substitute for a fair trade policy. But at least the promises should be honored.

We commend, however, the efforts of Rep. Pease, and others, who have introduced H.R. 925 to provide some meaningful training for workers who have lost their jobs, their wages, their medical benefits, their seniority, their homes—in short, whatever security had been achieved in their work life.

We believe that the proposals incorporated in H.R. 925 are modest steps to partially redress some of the injustices inflicted on this program in the last Congress. We urge the subcommittee to reestablish a meaningful Trade Adjustment Assistance program. Therefore, we recommend initially that the subcommittee swiftly adopt the following changes as provided in H.R. 925.

First, workers should be entitled to training assistance which the Trade Act of 1974 promises. H.R. 925 changes the current provisions of the Trade Act of 1974 to state that the Secretary "shall approve" training instead of "may approve" such training.

In 1981, the Administration, regrettably with the help of the Congress, performed radical surgery on the cash benefit side of Trade Adjustment Assistance, based on the argument that any future program must emphasize training, job search and relocation. In 1982, it eliminated cash benefits. While the AFL-CIO supports the restoration of the cash benefit program, we certainly support the proposals to improve training, job search and provide relocation allowances that are included in H.R. 925.

It has made no sense to require that unemployed workers prove that they have been injured, gain access to the program and then, after all the qualifications have been met, find there are either insufficient or no training funds available to carry out that side of the program.

Second, H.R. 925 raises the amount of money available for workers for job search and relocation allowances from the current law inadequate amount of \$600 to a new amount of \$800. The AFL-CIO supports this provision.

We also recommend adoption of the provision of H.R. 925 that calls for a minimal supplemental assistance benefit of \$15 for each day that a worker participates in training but is not eligible for trade readjustment allowances during any or all of the training period.

Third, in 1981, funding for the Trade Adjustment Assistance program was changed to provide that it must go through the regular authorization and appropriation processes. H.R. 925 generally restores the trust fund concept originally contained in the Trade Act of 1974, thus calling for Trade Adjustment Assistance funding from the collection of customs duties in imports. Customs duties are estimated will be about \$8.8 billion for fiscal year 1983 and \$9.1 billion for fiscal year 1984. Thus, the money for training, job search and relocation allowances will not require struggling through the regular authorization and appropriation processes.

Fourth, the "suitable work" standard for workers who have lost their jobs because of imports should be changed, so that they will not be forced to take jobs at the minimum wage or lose their right to Trade Adjustment Assistance benefits or train-

ing at the end of the first 26 weeks of unemployment compensation. That is the current state of the law.

Thus, a Trade Adjustment Assistance program no longer guarantees a 52-week program.

The Federal-State Extended Unemployment Compensation Act of 1970 under H.R. 925 would again be amended by adding a new clause—a new improved definition of "suitable work" for Trade Adjustment Assistance purposes. The new test would be "work of a substantially equal or higher skill level than the worker's past adversely affected employment" and "wages for such work at not less than 80 percent of the individual's average weekly wage for his most recent base period."

This proposal should at least help to create adjustment assistance for workers, rather than to create a new group of working poor whose jobs were lost because of the federal government's trade policy.

These changes are long overdue.

In addition, the AFL-CIO urges the subcommittee to give serious consideration to extending the coverage of the Trade Adjustment Assistance program to workers who work for independent suppliers of parts and services.

This has long been a goal of those who are interested in having an effective, non-discriminatory adjustment assistance program. This concept was passed by the House of Representatives in the 96th Congress, and has become an ever more important need as the inequities of the current law are becoming more evident.

The basic inequity under the law is that those who are now unemployed because imports have cost them their jobs are generally not covered by Trade Adjustment Assistance unless they are employed by a firm which makes an import-impacted end product. Thus, the worker who is displaced by imported television sets can be eligible if his firm makes television parts and television sets. But if the firm for which he works only makes parts for television sets, the worker is not covered. Also affected would be an auto worker employed by an auto parts supplier. Even worse, a cafeteria worker employed by an independent food services firm in an auto plant cannot get certified under current law, even though every other worker in the plant is covered. And workers who drive the trucks to deliver cars are ineligible unless they work for the firm which is the producer of the cars.

Thus, coverage has depended not on what the worker does, but on who owns the plant. Parts and service workers should be covered under the same standards that are used for workers who are employed to make the final product.

This is a minimal change that is long overdue and which is essential to remove some of the most glaring inequities in the Trade Adjustment Assistance program. The AFL-CIO has long urged the extension of benefits to such workers. In sum, all parts and service workers should be eligible for Trade Adjustment Assistance coverage.

We also urge that the law be amended to address the abuse in the current requirements that the worker who is certified as eligible to apply for adjustment assistance must also have had 26 weeks of employment in the last year prior to the lay-off because of import injury in order to qualify for adjustment assistance.

This requirement was originally put into the law so that there would not be an abuse of the trade adjustment program by qualifying for 52 weeks of benefits, workers who had only worked a few weeks.

Instead, the requirement of 26 weeks' employment has been used to deny benefits to workers who had worked for many years, but were injured on the job or on sick-leave or unjustifiably laid off during the last year of service.

For example, an employee with 20 years' service who was injured on the job and out of work for much of the last year before the plant was shut down, now receives no Trade Adjustment Assistance benefit because of the 26-week requirement.

We recommend an exemption from the calculation of the 26-week work eligibility requirement those weeks a worker has been on workers' compensation. We also urge this exemption from the 26-week work requirement for a worker who has been unjustifiably laid off, but for which the worker is later compensated. We also recommend immediate restoration of the national standard of 70 percent of lost pay for measuring Trade Adjustment Assistance cash benefit levels.

Mr. Chairman, last year when we testified, you stated that you understood our hostility to the way this program works and I quote: "It has never worked properly, but because it never has, does not mean it ought to be thrown down the drain."

"It is incumbent upon us to try straighten it out, and I am hoping we can get the cooperation of the Administration to do that because it would be so much easier to do it that way than to have to try to fight it down to the wire."

It is obvious from the Administration's budget request for fiscal year 1984 that we are not getting the cooperation that you had hoped for and we assure you that we

are prepared to fight for a meaningful program down to the wire. It is inhuman, for example, that a worker should wait for up to 14 months to be certified as eligible. On numerous occasions in the last Congress, the AFL-CIO has made the case for a meaningful Trade Adjustment Assistance program. However, the current budget simply ignores the commitments made in the Trade Acts of 1974 and 1979. This subcommittee has the opportunity to take the first steps to restore and improve the Trade Adjustment Assistance program. Together, we can make this program work.

Mr. Chairman, we believe the subcommittee should adopt H.R. 925 as a positive measure to assist workers who have lost their jobs through no fault of their own, but rather, because of U.S. trade policy. In addition, we call for the adoption of our recommendations for additional improvements as amendments to the bill.

The AFL-CIO also appreciates the opportunity to comment on the Administration's fiscal year 1984 budget requests for the U.S. Customs Service, and other trade requests. The U.S. Customs Service is the primary place where data is reported on imports. This information is often the basis for other agencies' statistical efforts. However, the budget requests for the U.S. Customs Service for fiscal year 1984 show no recognition of the need for more personnel or better information to enforce law concerning the enormous volume of international trade. The AFL-CIO continues to seek adequate information on imports, but the President's proposal does not. Instead, the fiscal year 1984 budget request actually reduces the number of full-time positions from 13,570 to 11,795. The overall request for the Customs Service's increasingly complex workload is reduced from \$140 million to \$127 million. Thus fewer persons and less money are available to carry out existing law.

In addition, the proposed budget for the International Trade Commission is minimally increased for research, investigations, and reports, from \$19.7 million to \$21.1 million without any increase in permanent personnel. Thus there is no recognition in the budget of the importance of adequate numbers of personnel to determine the impact of imports on U.S. producers and workers.

In the Department of Commerce almost \$1 million less money is proposed for imports and export administration in the International Trade Administration which directly affects U.S. workers and producers. Conversely, over \$1 million more is proposed for the Office of the United States Trade Representative, and more funds are proposed for international economic policy in the Department of Commerce.

There needs to be careful review of the inadequate funding not only for the items mentioned above, but for the variety of statistical and administrative problems which are growing as international trade effects the lives of so many Americans.

In summary, the AFL-CIO believes that the impact of international trade on American workers and their families is too important to be left in the hands of the budget cutters.

Chairman GIBBONS. Thank you. We are glad to have you and Ms. Jaeger here. We recognize we will be seeing a lot of each other this year.

I want to say before I go to the other witnesses it would appear to me that this is an opportune time to try to move on the bill that Mr. Pease has put forward. It is a tragedy of a sort that we are talking about a \$5 to \$7 billion jobs program. And we overlook ways of really retraining people so that they can get back to work, so that they can get the skills to get them a job. I am joining Mr. Pease in the introduction of his legislation and seeking support for his legislation and for the other things that you have outlined here.

I hope we can make some progress. The iron may be hot enough now to strike. And I regret that it had to get hot through unemployment. And I know that unemployment is very serious.

Mr. KOPLAN. I thank you for that, Mr. Chairman. And I note that you were a principal sponsor of this bill in the last Congress as well.

Chairman GIBBONS. And now from the UAW, Mr. Page.

STATEMENT OF LEONARD R. PAGE, ASSOCIATE GENERAL COUNSEL, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA [UAW], ACCOMPANIED BY GENE CASRAISS

Mr. PAGE. Mr. Chairman, my name is Leonard Page. With me today is Gene Casraiss with our UAW Legislative Department. The UAW supports continuation of the trade adjustment assistance program under the Trade Act of 1974. This program has been an integral part of the U.S. trade policy for over 20 years. It represents a special covenant between the victims of trade policies and their government which has made and administered those policies.

The entire program is now up for renewal. The Reagan administration wants to terminate the program, thereby eliminating one more safety net from the domestic sector. However, in March 1981 the Office of the U.S. Trade Representative testified before this subcommittee that TAA was a "necessary adjunct" and a "integral part of U.S. trade policy."

If TAA was so essential in 1981, what has changed to make it unnecessary in 1983? Is unemployment no longer a problem? Have imports suddenly dried up? Obviously, the facts show that unemployment and import levels have continued to rise since 1981. Unemployment has hit over 12 million Americans. This figure does not include approximately 1.8 million available workers who have stopped looking for work.

A recent study of the AFL-CIO Industrial Union Department concluded that 3 million manufacturing jobs have been lost since 1979, of which 2.3 million are in the durable goods industries, such as steel and auto. Employment in the U.S. auto industry has been especially hard hit for the last 3 years. More than 280,000 workers are currently laid off from the automobile manufacturing companies. Approximately 30 auto plants have closed since 1980. From 1978 levels, employment is down 30 percent, and new car and truck sales are down 35 percent.

The U.S. auto industry is currently operating at about 60 percent of its capacity. Automotive imports, primarily from Japan, have continued at extremely high levels in recent years. Overseas imports captured 28 percent of all new car sales in 1982, compared to an 18 percent figure in 1978.

Nor does the future look any better. A recent Department of Commerce publication entitled "1983 U.S. Industrial Outlook on Auto" predicts that after removal of export restraints, "Import penetration (including European cars) could easily increase from the current 27 percent to 35 to 40 percent of the new car market before the end of the decade."

According to a 1982 survey of automotive industry experts, conducted by the accounting firm of Arthur Andersen, the import content domestically assembled automobiles, now less than 5 percent, could reach 30 percent by 1985 and 39 percent by 1990.

Total imports of manufactured goods are also at record levels, reaching \$150 billion in 1982, up from \$77 billion in 1976.

In sum, the administration seeks elimination of the TAA program precisely at the time of its greatest need. The administration was correct in 1981. TAA remains an integral part of U.S. trade

policy. Nothing has changed to challenge the underlying rationale for providing targeted benefits to the victims of Federal trade programs. Congress has repeatedly promised American workers that Federal programs for expanding trade would only occur within a system of assistance for those workers directly displaced by these trade policies. It is difficult to believe that Congress will now renege on that bargain.

The Nation has enjoyed the benefits of liberalized trade policies. It would be most unfair to tell its current and future victims that their promised assistance is to be withdrawn.

Absent a viable trade program, we can only warn Congress that the current displeasure over this country's trade policies will grow even faster. With no TAA mechanism available, industries and workers adversely affected by imports will have no choice but to seek escape clause or other legislative relief.

An effective training program should be part of trade adjustment assistance. The President has often claimed that he supports retraining of unemployed workers along with better targeting of Federal aid programs. What better group exists for targeting training benefits than those found to be directly displaced by foreign imports? Retraining the victims attacks both the problem of unemployment and alleviates some of the deserved resentment against Federal trade policies.

Upon renewal, several program changes are needed to finally allow the program to work. We enthusiastically support H.R. 925, introduced last month by Congressman Don Pease and others. In particular, we wish to emphasize that training must be made an entitlement.

The administration has previously opposed making training part of the entitlement because of its general opposition to the expansion of entitlement programs. But this response really does not address the issue. Why should anyone oppose training for a worker indefinitely laid off due to imports? Training is no dole, it is work.

We should encourage and support any person with the ambition and desire to learn a new skill. Despite this period of record unemployment, there are an estimated 1 million job openings going unfulfilled because of a lack of qualified and skilled applicants. In several press conferences the President has held up classified sections of local papers containing hundreds of these job listings. He has stated that training workers to qualify for these jobs is a top priority of his administration. H.R. 925 is therefore an opportunity for the President to honor his own commitment.

Under H.R. 925 the Secretary will finally be required to give something more than rhetoric to training programs. He will have to promote and improve training applications. He will have to request sufficient appropriations to implement the program. Given the Secretary's prior track record, H.R. 925 is the only way to convert TAA into a viable training program.

Now, there are several other major flaws in the TAA program which are not addressed in H.R. 925 which we believe should also be corrected. First and foremost, the low approval rate must be remedied. We believe this low approval rate on petitions filed by workers is an insult to Congress and the American worker. What good is it to provide a realistic TAA program if very few workers

ever get certified? The approval rate has dropped from 50 percent in 1975 to 8 percent in 1981 and 18 percent in 1982.

As a practical matter, we have regressed to the depressing years of a paper TAA program under the old Trade Expansion Act of 1962. This low approval rate has never been satisfactorily explained. We acknowledge the fact that petitions filed by supplier and component workers due to an uncorrected loophole in the law are usually denied. But these groups were also filing petitions in 1975 and 1976 when approval rates were much higher.

The evidence clearly suggests that there may be some informal or undisclosed restrictions on the certification process. We can think of no other explanation. Imports and unemployment are at record highs, yet the petition approval rate during this administration is at a record low.

It seems that the Secretary has taken private steps to implement the Reagan termination proposal 2 years in advance of its actual introduction.

A program providing benefits to 25,000 workers per year when imports are high and 12 million are unemployed is worse than no program. The current TAA program is paying benefits to less than two-tenths of 1 percent of the unemployed. To hold out a promise of assistance when we all know the actual chance of timely benefit delivery is almost nil and is doubly cruel.

In addition, we believe that TAA coverage must be extended to independent parts suppliers. Now, the TAA is essentially a training and job relocation program. We should be expanding the pool of potential trainees rather than restricting it.

How long can Congress deny extending program benefits to workers who supply essential parts and services to end product firms affected by imports? This arbitrary exclusion has TAA eligibility turn on corporate structure rather than what the worker actually makes.

In addition, we believe the current 1 year benefit period in which a worker must exhaust all 52 weeks of TAA benefits is much too short. The results are the arbitrary exclusion of a high percentage of the eligible workers, and we recommend that the benefit period be extended to 18 months.

Finally, we believe that where multinational corporations relocate in foreign countries, certification must be mandatory. Section 283 of the act makes it the sense of Congress that firms relocating in foreign countries should give 60 days' advance notice of such a move and offer relocation to other domestic facilities to the affected workers.

It is bad enough that our laws encourage multinational corporations to export vast amounts of capital for overseas expansion, but when an American worker's job is exported, you would think that Congress would do much more than sense the need for relief. Section 283 provisions should be made mandatory.

Thank you.

[The prepared statement follows:]

STATEMENT OF LEONARD R. PAGE, ASSOCIATE GENERAL COUNSEL,¹ UNITED
AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW)

Mr. Chairman, my name is Leonard R. Page. I am an Associate General Counsel in the UAW Legal Department, Detroit, Michigan. The International Union, UAW, represents approximately 1,300,000 workers and their families in North America. I have been coordinating the UAW's participation in the trade adjustment assistance program and I welcome this opportunity to again testify before your Subcommittee on that program.

The UAW supports continuation of the worker trade adjustment assistance (TAA) program under the Trade Act of 1974. This program has been an integral part of U.S. trade policy for over twenty years. It represents a special covenant between the victims of trade policies and their government which has made and administered those policies.

The primary goal of U.S. trade policy has been to increase commerce between the nations of the world thereby improving both opportunities for consumer choice, the market for exporting industries and the prospects for world peace.

However, it is also recognized that significant problems flow from liberalized trade programs. Some domestic industries and workers previously insulated from foreign competition are obviously going to be injured, and possibly even destroyed by increased imports.

Given the overall benefits to our society, Congress therefore provided two safety nets for the relatively few victims. For industry and workers threatened with survival, an escape clause mechanism was established. Upon a showing of substantial injury, the President may invoke marketing arrangements, quotas or even tariffs so as to protect the domestic industry and its workforce.

For less serious injury, a system of adjustment assistance was created to target relief for individual workers and employers. The TAA safety net also avoids the international repercussions which necessarily attach to escape clause remedies.

For workers certified as displaced by imports, the TAA program provided income maintenance, job search and relocation and retraining benefits. Employers are to receive assistance and low interest loans to become more competitive or develop new product lines. Thus TAA is designed so that both workers and employers should receive temporary federal aid to adjust and to find new areas of endeavor.

This system was established under the original Trade Expansion Act of 1962 and improved upon under the Trade Act of 1974. In 1981, under the Omnibus Budget Reconciliation Act, the income maintenance aspects of the worker adjustment assistance program were substantially slashed in exchange for a claimed improvement in training benefits.

The entire program is now up for renewal. The Reagan Administration wants to terminate the program, thereby eliminating one more safety net from the domestic sector. The Administration's position is both deceptive and contrary to our national interest. It is deceptive because this current posture is 180 degrees opposite to the Administration's original position. It is contrary to our national interest because trade adjustment assistance fulfills a central role in our overall trade policy.

THE TAA PROGRAM IS NEEDED NOW MORE THAN EVER

In March 1981, the Office of the U.S. Trade Representative testified before this Subcommittee that TAA was a "necessary adjunct" and an "Integral part of U.S. trade policy." If TAA was essential in 1981, what has changed to make it unnecessary in 1983? Is unemployment no longer a problem? Have imports suddenly dried up? The facts show that unemployment and import levels have continued to rise since 1981.

Unemployment has hit over 12 million Americans. This figure does not include approximately 1,800,000 available workers who have stopped looking for work. A recent study of the AFL-CIO Industrial Union Department concluded that 3,000,000 manufacturing jobs have been lost since June, 1979, of which 2,300,000 jobs are in the durable goods industries such as steel and auto.

Employment in the U.S. auto industry has been especially hard hit for the last three years. More than 280,000 workers are currently laid off from the automobile manufacturing companies. Approximately 30 auto plants have closed since 1980. From 1978 levels, employment is down 30 percent and new car and truck sales are down 35 percent. The U.S. auto industry is operating at about 60 percent of its capacity.

¹ UAW Legal Department, 8000 East Jefferson Avenue, Detroit, Mich. 48214, (313) 926-5216.

Automotive imports, primarily from Japan, have continued at extremely high levels in recent years. Overseas imports captured 28 percent of all new cars sales in 1982 compared to an 18 percent figure in 1978.

Nor does the future look any better. In a recent Department of Commerce publication entitled 1983 U.S. Industrial Outlook, one author predicts that after removal of export restraints, "import penetration (including European cars) could easily increase from the current 27 percent to 35 to 40 percent of the new car market before the end of the decade . . ."

The rise in imports has not been confined to finished vehicles. In the last decade, the value of auto parts imported into the United States from countries other than Canada has grown at an annual of 24 percent. The Department of Commerce estimated in December 1981 that 2.5 million engines and 1.7 million transmissions will be imported during each of the next several years. There is considerable evidence that without government action, this will only be the tip of the iceberg.

According to a 1982 survey of automotive industry experts conducted by the accounting firm of Arthur Andersen, the import content of domestically assembled vehicles (now less than 5 percent) could reach 30 percent by 1985 and 39 percent by 1990.

Total imports of manufactured good are also at record levels—reaching \$150 billion in 1982 up from \$77 billion in 1976. In sum, the Administration seeks elimination of the TAA program precisely at the time of its greatest need.

TAA REPRESENTS A SPECIAL COVENANT BETWEEN THE VICTIMS OF U.S. TRADE POLICY AND THEIR GOVERNMENT

The Administration was correct in 1981. TAA remains an "integral part of U.S. trade policy". Nothing has changed to challenge the underlying rationale for providing targeted benefits to the victims of federal trade programs Congress has previously described that justification:

"The program is premised upon the belief that trade-related unemployment and market disruption may differ somewhat in nature from that arising from other causes, and upon the belief that such trade-related imports, resulting from a Federal policy of encouraging increased foreign trade for the benefit of the country should not be borne unaided by particular segments of U.S. industry and labor."²

The unemployed victims of trade policies are different from the great mass of the unemployed because their unemployment is directly traceable to changes in trade policies. Congress acknowledged this fact when it passed the TAA program in 1962.

This special covenant between Congress and labor has existed for over twenty years. Congress has repeatedly promised American workers that federal programs for expanding trade would only occur within a system of assistance for these workers directly displaced by these trade policies. It is difficult to believe that Congress will renege on that bargain now. The nation has enjoyed the benefits of liberalized trade policies; it would be most unfair to tell its current and future victims that their promised assistance is to be withdrawn.

We ask that the program be renewed; we know that the concept of TAA can work.

The abolition of the program would be a scandal that cannot be rewarded by non-renewal. It has been almost two years since passage of changes made by Omnibus Budget Reconciliation Act of 1981 and we still have no regulations on the revised TAA program from the Secretary. The UAW currently has three separate lawsuits pending against the Secretary of Labor in the U.S. District Court for the District of Columbia, challenging his anti-beneficiary administration of the Trade Act. (Case Nos. 81-1954, 82-1458, and 82-3137). On January 17, 1983 in Case No. 82-3137, Judge Harold Greene issued a nationwide injunction against the Secretary's handling of TRA overpayments Judge Greene's order scores the Secretary for attempting "to take advantage of his unlawful refusal to issue guidelines to recoup overpayments without providing for waivers where equitable, as intended by Congress".

The program is conceptually and structurally sound and deserves continuation but with a specific directive from this Congress to have the Secretary of Labor to release his handbrake and quit putting sugar in the gas tank. It should not be necessary to sue the Secretary of Labor to force him to administer TAA on behalf of its intended beneficiaries.

² Staff Data and Materials Relating to Trade Adjustment Assistance Program Prepared for use of Subcommittee on International Trade Staff of Senate Committee on Finance (96th Congress, 1st session, 1979).

Absent a viable TAA program, we can only warn Congress that the current displeasure over this country's policies will grow even faster. With no TAA mechanism available, industries and workers adversely affected by imports will have no choice but to seek escape clause or other legislative relief.

An effective training program should be part of trade adjustment assistance. The President has often claimed that he supports retraining of unemployed workers along with better targeting of federal aid programs. What better group exists for targeting training benefits than those found to be directly displaced by foreign imports? Retraining the victims attacks both the problem of unemployment and alleviates some of the deserved resentment against federal trade policies.

THE UAW SUPPORTS H.R. 925

Upon renewal, several program changes are needed to finally allow the program to work. We enthusiastically support H.R. 925 introduced last month by Congressman Don Pease (D. Ohio) and others. Some of the key features of H.R. 925 are as follows:

A. Training must be part of the entitlement package

The training, job search and job relocation aspects of the current TAA program have been allowed to wither on the vine. Prior to this year, the Secretary's annual requests for training ranged between \$5.6 to \$17 million. In fiscal 1981, the budget for training was zero. The Secretary's consistently meager budget requests underscore a historical decision to downplay training as part of the TAA program. This deliberate sabotage of the training programs has been most effective. From 1975 through March 1981, only 3 percent of certified workers enrolled in training and only 1.2 percent ever completed their program. From March 1980 until March 1982—a span of two years with record TAA applicants—the training program was out of funds.

The Administration now uses this same data and its own mismanagement to justify terminating TAA training entirely. But the low usage rates are not due to lack of worker interest as the Administration implies. In 1980, out of 176,000 TAA recipients who applied for employment services, about 40 percent (71,644) applied for training. A January 1980 survey of certified workers conducted by the Michigan Employment Security Commission (MESC) showed that 78 percent were interested in training and 38 percent were willing to relocate to take jobs. The MESC 1980 budget request for \$5.4 million to open two training offices in Detroit was rejected by the Secretary as being too ambitious. Only one training center was actually opened, only to be closed several months later when the program ran out of funds.

The Secretary's implementation of the 1981 Omnibus Budget Reconciliation Act TAA changes also demonstrates the need for H.R. 925. You will recall the Administration's rhetoric about changing TAA from income maintenance to training with a promised allocation of \$112 million for fiscal 1982. However, only \$25 million was actually appropriated and even then that money wasn't allocated to the states until late March 1982—seven months into the fiscal year.

In addition, the 1981 "reform" bill contained one single improvement which was subsequently misapplied. The Omnibus bill amended Section 236(a)(1) to provide that where the individual training program is approved, the worker is entitled to have the training cost paid by the Secretary. As of October 1, 1981, approximately 15,000 workers were self-financing approved training programs with the expectation that they qualified for the 26-week extension of TRA. Workers had to self-finance because no training funds were appropriated in 1981. These workers were using the 26-week TRA extension to finance their training. But the Department of Labor used this one sentence improvement in the 1981 amendment to issue clearly illegal and improper guidelines which have:

- (1) discontinued worker rights to self-finance; and

- (2) conditioned the approval of training on the availability of allocated funds.

When the amendment cut off extended TRA for these 15,000 workers who had self-financed, the UAW demanded that the Secretary reimburse their training costs—which was what we believe Congress intended. The Secretary refused, saying that while the cutbacks in TRA were to have an immediate effect, the improvements in training were to be applied only prospectively.

The net effect of these actions by the Secretary is that more than 95 percent of the 15,000 workers in training on October 1, 1981 were forced to drop out of the program. The Secretary's enactment of these 1981 changes is currently the subject of litigation as previously mentioned (Case No. 82-1458), but regardless of the legal outcome, this story adequately demonstrates the Secretary's negative attitude

toward training. In sum, we believe the record is clear that the Secretary has failed to properly administer the TAA training program. A training program, left to this Secretary's discretion in matters of funding and promotion, is guaranteed to fail. By making training a program entitlement, the Secretary will be forced to finally make training a priority benefit.

The criteria for individual training approval is more than adequate to protest against abuses. H.R. 925 requires that training costs be paid only where:

- (1) the individual is laid off from a workplace covered by a certification;
- (2) no suitable employment is otherwise available;
- (3) a suitable training program is available;
- (4) the worker would benefit from the training program;
- (5) there is a reasonable expectation of future employment after training; and
- (6) the individual is qualified to undertake such training.

The Administration has previously opposed making training part of the entitlement because of its general opposition to the expansion of entitlement programs. But this response doesn't really address the issue. Why would anyone oppose training for a worker indefinitely laid off due to imports? Training is no dole—it is work. We should encourage and support any person with the ambition and desire to learn a new skill.

Despite this period of record unemployment, there are an estimated one million job openings going unfilled because of a lack of qualified and skilled applicants. In several press conferences, the President has held up the classified sections of local papers containing hundreds of job listings. He has stated that training workers to qualify for these jobs is a top priority of his Administration. H.R. 925 is therefore an opportunity for the President to honor his own commitment.

Under H.R. 925, the Secretary will finally be required to give something more than rhetoric to the training program. He will have to promote and approve training applications. He will have to request sufficient appropriations to implement the program. Given the Secretary's track record, H.R. 925 is the only way to convert TAA into a viable training program.

B. A subsistence allowance must be provided

We are pleased to see that H.R. 925 also provides for a minimum subsistence allowance of \$15 a day for workers in training who have no other unemployment income. The \$15 may only be enough to pay for transportation and lunch—but at least it is enough to get the trainee through the day. It is not reasonable to expect that unemployed workers, cut off from all other income sources, can get through training without some out-of-pocket expenses.

C. The adjustment assistance trust fund should be restored

H.R. 925 restores the adjustment assistance trust fund as set forth in the original Trade Act of 1974 at Section 245. Even though the fund was never established, the concept of the trust fund provides an important link between TAA program costs and amounts collected from customs duties. For example, customs duties in 1981 were around \$8 billion. Total customs duties obviously correspond directly to changes in imports. Linking the costs of aiding the victims of trade policies to customs duty revenues is important for assessing future TAA appropriation requests.

UAW PROPOSALS FOR ADDITIONAL REFORM

There are several major flaws in the existing TAA program which are not addressed by H.R. 925 which must also be corrected:

A. The low approval rate must be remedied

The low-petition approval rate is an insult to Congress and the American worker. What good is it to provide a realistic TAA program if very few workers ever get certified? The approval rate has dropped from 50 percent in 1975 to 8 percent in 1981 and 18 percent in 1982. As a practical matter we have regressed to the depressing years of a paper TAA program under the Trade Expansion Act of 1962.

In response to written questions from this Subcommittee last year, the Secretary was asked to specify the assumptions on which the 1982 Reagan Budget was based. His written response said, "The current level of new certifications will continue with no new large numbers of workers certified. (100,000 per year)" In fact, however, 229 petitions were totally approved in 1982 covering 22,000 eligible workers. By comparison, 900 petitions were granted in 1980 covering 570,000 workers.

This low approval rate has never been satisfactorily explained. We acknowledge the fact that petitions filed by supplier and component workers, due to an uncor-

rected loophole in the law, are usually denied—but these groups were also filing petitions in 1975 and 1976 when the approval rates were much higher. The evidence suggests that there may be some informal and undisclosed restrictions on the certification process. We can think of no other explanation. Imports and unemployment are at record highs—yet the petition approval rate during this administration is at a record low.

It seems that the Secretary has taken private steps to implement the Reagan termination proposal two years in advance of its actual introduction. A program providing benefits to 25,000 workers per year when imports are high and 12 million are unemployed is worst than no program. The current TAA program is paying benefits to less than two-tenths of one percent of these unemployed. To hold out a promise of assistance when we all know the actual chances of timely benefit delivery are almost nil, is doubly cruel.

Given the lack of approvals from 1962 to 1969, with only slight improvement thereafter, one of the major reforms of the Trade Act of 1974 was to remove the certification process from a hostile Tariff Commission to the fairer and more sympathetic Department of Labor. Unfortunately, this Secretary appears to be neither fair or sympathetic to the TAA program.

The application of certification criteria under the Section 222, "contributed importantly" test is loaded with discretion. In our complex world economy, many factors contribute to unemployment—interest rates, war, oil embargoes, technological change, crop failures and so on. Determining how and when increased imports contribute to unemployment is perhaps more of an art than science. The Secretary should have sufficient discretion in applying the standard so as to deal with the hard cases.

But something must be done to let the Secretary know that it's time for him to take his thumb off the scales: A "sense of Congress" proviso should be added to Section 222 stating: "Congress anticipates that a substantial portion of the petitions filed during periods of increasing imports and unemployment will be certified." At an absolute minimum, Congress must express its concern over the low approval rate by demanding a detailed explanation from the Secretary.

In addition, the slow processing of petitions with decisions being rendered many many months beyond the 60 day statutory deadline set out under Section 223 also has to be corrected. The tardy delivery of benefits a year or two after the onset of unemployment has been one of the major defects in the TAA program.

B. TAA coverage must be extended to parts and supplier workers

Now that TAA is essentially a training and job relocation program, we should be expanding the pool of potential trainees rather than restricting it. How long can Congress deny extending program benefits to workers who supply essential parts and services to end-product firms affected by imports? This arbitrary exclusion has TAA eligibility turn on corporate structure rather than what the worker actually makes. Thus a General Motors worker making spark plugs gets benefits while a Champion worker making spark plugs for use in the same GM automobile does not. Parts and supplier workers are victims of trade policies to the same extent as end-product workers. If TAA is essentially a training program rather than income maintenance, there should be no serious opposition to including independent parts and suppliers.

C. The 1-year benefit period for TRA must be extended to 18 months

The Omnibus Budget Reconciliation Act of 1981 cut the benefit period for drawing TRA from two years to one. It was this change which eliminated most of the 200,000 covered workers drawing TRA in October 1981 even though they had not exhausted their 52 weeks of benefits.

A one-year benefit period to draw 52 weeks of state unemployment and TRA is just too short. The benefit period is triggered by the exhaustion of state unemployment. Thus, where a worker has several months of periodic unemployment, the benefit period starts and may expire before a permanently unemployed worker draws his or her full weeks of TRA. We propose extending the benefit period to 18 months.

D. Where multinational corporations relocate in foreign countries, certification must be mandatory

Section 283 of the Act makes it the "sense of Congress" that firms relocating in foreign countries should give workers 60 days advance notice of such a move and offer relocation to other domestic facilities to the affected workers. It is bad enough that our laws encourage multinational corporations to export vast amounts of capi-

tal for overseas expansion, but when an American worker's job is exported, you would think that Congress would do much more than "sense" the need for relief.

Indeed, the Secretary has held that plant relocations to foreign countries do not qualify for TAA unless the increased imports actually precede the plant closing. Workers making bicycle parts at a Bendix plant in Elmira, New York were denied certification when the company moved the plant to Mexico and imported the bicycle parts back into the U.S. The Secretary ruled that the imports had not "contributed importantly" to domestic unemployment because the imports occurred after the closing. These provisions and the availability of TAA must be mandatory.

In addition, to work effectively, the advance notice provisions must extend not only to plant closings, where the work is going to foreign countries, but to all situations where there are significant reductions in employment. Since adjustment assistance benefits coming from the federal treasury operate as a subsidy to foreign plant relocation, the Department of Labor should also exercise oversight and licensing responsibilities to determine when these moves are not in the public interest.

CONCLUSION

The justifications for maintaining a trade adjustment assistance program are even stronger today than in 1962 when the program was originally enacted. Since all citizens supposedly benefit from liberal trade policies, it is only fair that the few victims displaced be given some real assistance to restart. The 20-year covenant of this government with the American workers must not be repudiated. Indeed given the prospects for even greater levels of import-related unemployment, the program needs to be strengthened.

Mr. PEASE [presiding]. Thank you very much, Mr. Page.
Mr. Sheehan.

STATEMENT OF JOHN J. SHEEHAN, LEGISLATIVE DIRECTOR, UNITED STEELWORKERS OF AMERICA, ACCOMPANIED BY JOHN M. POWDERLY

Mr. SHEEHAN. Thank you, Mr. Chairman. I would like to make some very brief remarks and enter the statement into the record.

Mr. PEASE. That will be done.

Mr. SHEEHAN. To start off with, I would like to acquaint the committee with the fact that the steel industry last year succumbed to about a 25-percent increase in the rate of imports over the year previous. And when the year totaled out, about 23 percent of apparent consumption was supplied by offshore steel.

I would also like to emphasize, Mr. Chairman, the fact that we have always considered trade adjustment assistance to be in addition to any other remedial measures that were already in place. We did not consider it to be a substitute for those programs, but indeed envisioned in 1962 and the 1974 act that these were remedial measures in addition to what was already in place and that it was our understanding that this program was both compensatory and adjustment in its purpose.

Now, to that extent, I would just make three points with regard to what we say in our testimony. No. 1, we are urging that the TRA program be extended. It terminates, as you know, on October 1 of this year. And we are asking for an extension of that program and an extension of it is as it originally was prior to the reconciliation process in the Congress. And here I would only emphasize one item of that extension: that the extension should include compensation above the State UI rates.

Which gets us back to the original comment I made, that we had considered TRA to be in addition to the State TRA levels. We are currently experiencing the fact that in many States workers that

do get certified for TRA do not in fact receive any TRA benefits, because the State UI, the EB, and the Federal supplement are of such duration that there is no actual additional cash income maintenance as a result of the TRA program.

No. 2 we would like to suggest that there be a more automatic process for handling and administering these petitions. Aside from the criteria that is already in the act, as you well, know, the Labor Department has spent a considerable amount of time doing what is known as customer surveys, the survey of the individual customers from the individual plant. This survey takes a very long time so that by the time the certification comes in, the unemployment has already endured for quite some time. We would suggest that there be a more automatic process for making a determination of the petition.

The third fact that I would like to emphasize is incorporated in your own bill, Mr. Chairman. And that has reference to the training component. I think it is important for us to realize that most workers that are in a laid-off situation do indeed seek the training. Our own experience lately, Mr. Chairman, has been constant inquiries as to what is happening to the training program under the TRA. Our members are very much interested in qualifying for that program. As a matter of fact, just today we talked to some people out at Gary, Ind., who indicated that workers between the age of 20 to 25 with about 4 years or 5 years of seniority in the steel mills probably will not be returning to those mills, and they are constantly inquiring about availability for training.

So here we find in your bill that training component, and we do support it, and certainly support the notion that it should be an entitlement.

In addition, I would just emphasize the fact that you also have subsistence allowance, and we applaud that that is in the bill.

I would just close that with the training component we consider this to be in addition to the training program that is already in place; namely, the Job Training Partnership Act. And a very close investigation of the definition of a displaced worker in that act might very well indicate to all of you on this committee that most TRA recipients might not even be qualified for training under that act, since there may not be a plant shutdown but there may be an unemployment due to an import related situation.

Those are the three points that we would emphasize for the purpose of this testimony. Thank you.

[The prepared statement follows:]

STATEMENT OF JOHN J. SHEEHAN, LEGISLATIVE DIRECTOR, UNITED STEELWORKERS OF AMERICA

Mr. Chairman, Members of the Subcommittee on Trade: my name is John J. Sheehan, and I am the Legislative Director of the United Steelworkers of America.

From a review of the testimony presented by the Administration last year, and from the fact that the President has excluded Trade Readjustment Assistance in his fiscal year 1984 budget, we can easily infer that he favors the termination of this program.

The Administration's rationale is that all unemployment is alike and consequently all unemployed workers should be treated the same. We do not agree with this rationale, particularly when it is applied to unemployment which is the result of the adverse impact of foreign imports. All nations and most economists agree that there is a distinction between forces which operate in the domestic market places

and the forces and results which emanate from international trade. It is precisely because of this distinction that Trade Readjustment Assistance for American industry and labor was introduced in the 1960's and strengthened in the Trade Act of 1974.

Let me restate the purposes of the 1974 Trade Act as they are enumerated in the preamble:

(1) to foster the economic growth of full employment in the United States and to strengthen economic relations between the United States and foreign countries through open and non-discriminatory world trade;

(2) to harmonize, reduce, and eliminate barriers to trade on a basis which assures substantially equivalent competitive opportunities for the commerce of the United States;

(3) to establish fairness and equity in international trading relations, including reform of the General Agreement on Tariffs and Trade;

(4) to provide adequate procedures to safeguard American industry and labor against unfair or injurious import competition, and to assist industries, firms, workers and communities to adjust to changes in international trade flows;

(5) to open up market opportunities for United States commerce in nonmarket economies; and

(6) to provide fair and reasonable access to products of less developed countries in the United States market.

Members of the Committee, these are eloquent statements and valid reasons upon which our country based its liberal trade policy, including the elimination of trade barriers; open market opportunities; and reasonable access to our markets. The goals of this policy were fairness and equity in international trade relations in order to foster economic growth and full employment in the United States, along with strengthened economic relations with foreign countries. However, while these benefits were being nurtured, it recognized that there would be some industries, firms, workers and communities which would be injured by the changes in trade policy and these should be identified and provided adjustment assistance.

So we're not talking about dislocations which are the result of changing market conditions: product substitution, changing customer preferences, technological breakthroughs and similar forces which have historically caused unemployment. We are talking about dislocations which are the direct result of actions taken by the only agency authorized by the Constitution to effect alterations in trade policy—the federal government. Trade Adjustment Assistance was formulated as a remedy to the injury that was anticipated by the advocates of a free trade policy. The proponents of free trade cited the advantages of opening our markets to foreign products: consumers would profit marginally as cheaper foreign goods competed with domestic products and the savings derived therefrom would spur consumption in other goods and services. Meanwhile, if some of the foreign products became so attractive that some workers were laid off and some plants closed down, then the TRA program would provide assistance to help those workers and firms to readjust. TRA was heralded as a compact between the federal government and trade sensitive American workers and industries.

Members of the Committee, the American labor movement did not endorse or support the Trade Act of 1974 because the end results would not reconcile the advantages and disadvantages as the proponents claimed. Instead of open trade, the labor movement favored market shares and greater assurances of protection for American industry and American workers.

However, it is not our intention here to reopen the 1974 debate. Rather, we come here to salvage the TRA program and to suggest improvements in the certification process and the benefit structure.

IMPROVEMENT IN THE CERTIFICATION PROCESS

In order to certify workers for TRA benefits, three conditions must prevail:

(1) Sales and/or production at the domestic firm must have decreased;

(2) A significant number of workers must be unemployed; and

(3) Increased imports of like or directly competitive products must have contributed importantly to the unemployment.

These first two criteria are fairly easy to monitor and measure. They are generally tabulated and recorded on a monthly basis. However, in applying the third criterion, the Department of Labor surveys customers of domestic firms whose workers file for TRA in order to determine if they have switched to foreign suppliers. While the law requires that a determination be concluded within 60 days of filing a petition, the median elapsed time for determining petitions submitted from January

1981 through December 1982 has been 10 months.¹ The report of investigations by the International Trade Commission determining injury to industries caused by imports must be concluded within six months after date of petition, but unemployed workers have not nearly the capacity to sustain themselves as do industries. Unemployed workers simply cannot wait almost a year to find out whether they qualify for adjustment assistance. We suggest that the elaborate customer survey be modified or replaced with a procedure which would automatically certify workers for TRA benefits when imports relative to domestic supply (commonly called market penetration), breach a certain threshold. Employing such a formula would expedite the process and provide assistance benefits at the time when workers find them useful. Employing such a direct test would resolve the problem which currently exists of exempting from the survey those customers who shifted their purchases from domestic to foreign suppliers during periods of economic upturn and who continue those purchases during periods of recession. Imports coming into our markets in 1982 are injurious to domestic producers and workers, but they are not tabulated in the certifying process if they were contracted for during periods of high demand. Therefore, we ask this committee to consider employing a more automatic test of injury in addition or in lieu of the customer survey method.

RESTORING THE TRA BENEFIT STRUCTURE

When Congress established the trade assistance program, it acknowledged that workers injured by increased imports should be provided assistance at a rate higher than regular unemployment compensation, which is paid to unemployed workers whose layoffs result from domestic market conditions. It pegged TRA weekly benefits to 70 percent of the worker's average weekly wage with a cap equal to the national weekly wage. This total was offset by any regular unemployment compensation to which a worker was eligible. After exhaustion of unemployment compensation eligibility, workers received the full TRA benefit from the federal government up to a maximum combined total of 52 weeks. Workers in approved training programs were entitled to up to an additional 26 weeks of benefits to complete such training.

In 1981, the Administration pressed Congress to eliminate the TRA differential and capped the benefit at the individual state unemployment compensation level. Thus a trade impacted Steelworker in Pennsylvania would receive a TRA benefit at \$190 per week while a correspondingly trade impacted Steelworker in Alabama could receive only \$90 per week. The 1981 changes also required that before receiving any TRA allowance, workers must exhaust all eligibility to regular state unemployment benefits plus whatever combination of federal benefits they would receive.

In many industrial states, the combination of state U.C. and combined federal/state benefits equal or exceed the 52 weeks maximum that the TRA pays and as a consequence, trade impacted workers are ineligible for trade allowances.

While they continue to be eligible for extra weeks of allowances for training purposes, workers cannot demand training as an entitlement.

Members of the Committee, the industrial sector of this country is being eroded by imports and devastated by a recession that is the longest and deepest since the 1930's. In order to survive, our basic industries are undergoing restructuring programs which means that many marginal plants and factories are headed for extinction, resulting in permanent job losses in areas which have provided the means of livelihood for generations of Americans. Some countries have been found in violation of the international trade agreements with the effect that their subsidized exports have worsened U.S. unemployment.

We believe that this Congress should restore the TRA program so that it provides meaningful adjustment assistance from the time of layoff until workers can secure equivalent employment. For many, this will mean expanded counseling services and training opportunities.

For the period January 1981 through December 1982, the Steelworkers Union has filed 188 petitions for Trade Readjustment Assistance with the Department of Labor.

Section 223 (a) of the Trade Act of 1974 (Public Law 93-618) requires that a determination of a petition be concluded "not later than 60 days after the filing of a petition."

Of the 94 petitions which have been determined, the median number of months elapsed between filing and determination equalled 10 months. Nineteen of the 94

¹ A survey of all petitions filed January 1981-December 1982 is attached to this testimony.

petitions took over a year to be determined. The number of petitions filed and completed with the corresponding number of months pending investigation follows:

<i>Petitions determined</i>	<i>Months pending investigation</i>
0	1
2	2
2	3
0	4
9	5
8	6
7	7
12	8
9	9
6	10
15	11
5	12
12	13
1	14
5	15
1	16

94 of the 188 petitions filed are still under investigation. The number of petitions filed and the corresponding number of months they have been pending determination follows:

<i>Petitions filed</i>	<i>Months pending determination</i>
2	1
9	2
15	3
6	4
9	5
10	6
25	7
3	8
7	9
2	10
1	11
4	12
0	13
1	14

Mr. PEASE. Thank you very much, Mr. Sheehan. I appreciate the testimony of all three witnesses. And obviously, I appreciate the support for H.R. 925.

Mr. Page, could you amplify a little bit on your testimony regarding section 283? Tell me what that section is, which act that is a section of, and what in your opinion it specifies?

Mr. PAGE. Well, it is part of the Trade Act, Mr. Pease, and it provides

Mr. PEASE. Of 1974?

Mr. PAGE. Yes; it is. And it provides for a sense of Congress. It is not a mandatory provision. And it provides for 60 days' notice of a closing where the relocation is going to take place into a foreign

country. And it also provides that the employer should offer jobs at other domestic locations for the affected workers.

However, one other provision provides that the employer should petition for trade adjustment assistance. We have had a number of situations where this has occurred where the firm has relocated overseas but the plant has been denied certification. And it is due to a ruling by the Department of Labor that in order for imports to cause unemployment, the imports must precede the unemployment. But when a plant relocates overseas, the imports come in after the U.S. plant has closed. And so according to the Department of Labor, everyone knows that imports coming in after the closing cannot cause the unemployment.

We have litigated that unsuccessfully, but it is another one of the antibeneficiary decisions of the Department of Labor. And we think it should be corrected. In any case when a firm relocates overseas, you would think that would be automatic grounds to certify the workers at the closed plant.

Mr. PEASE. I see. Thank you.

We have not had testimony yet from the Department of Labor. I think that will be coming up next.

But can any of you comment about your own experience with the administration of the TAA program over the past year? Admittedly, it is a shadow of its former self, but at least it is there. What has been the record from your point of view?

Mr. SHEEHAN. Mr. John Powderly, who processes TAA claims for the Steelworkers Union, would like to comment on that.

Mr. POWDERLY. Yes, Mr. Chairman. We have added to the end of the testimony that Mr. Sheehan submitted a breakdown of all of the petitions that the Steelworkers Union has submitted to the Department of Labor from January 1981 through December of 1982.

And despite the fact that the law requires petitions to be concluded within 60 days after filing, we find that a median average number of months to elapse between the filing and the determination is 10 months. We have had as many as 12, 13, 14, 15, 16 months' delay between the time of petition and the time of the determination.

And one just has to ask the members of the committee to be mindful that waiting that long for a worker to find out 16 months after he is laid off that he may be eligible for a training opportunity is just to defy the imagination of what really is going on out there in the unemployment area. Workers just simply cannot survive that long to find out that that happened.

Prior to 1981 we found that our average was taking just a bit above 60 days, as required by the law. But suddenly, these petitions have gone up to a 10 month median average and some of them as many as 15 or 16 months.

Mr. PEASE. Mr. Powderly, do you mean to tell me that during 1979 and 1980 at the height of the filing of the petitions under TRA that it was taking less time than it is taking now to certify them?

Mr. POWDERLY. Yes, sir. The evaluation of the petitions put in prior to 1981 reflected an average of just a bit over 60 days, or 2 months, from the time of filing.

Mr. PEASE. And now the time is averaging 10 months at least in the case of your own petitions?

Mr. POWDERLY. In our own petitions, yes, sir. There was a cut in force of the OTAA, and these petitions have an elaborate customer survey that must be concluded. Mr. Sheehan elaborated on that in his testimony, that we were looking for a short circuit method to eliminate these long consumer surveys.

A customer of a steel firm is not probably going to respond to a Department of Labor questionnaire very quickly if that question asks whether or not he shifted his purchases from the domestic steel firm to a foreign steel firm. It is not the kind of answer one likes to send in to the Department of Labor and have that reviewed and have that expressed in the press.

Mr. PEASE. So one factor for the delay would be shortage of personnel in the Department of Labor, and another one would be the instigation of these customer survey forms, is that right?

Mr. POWDERLY. Well, I think it could be both. There was an enormous cutback in force over there in that division. And then these customer surveys are elaborate and do take time.

Mr. PAGE. Mr. Pease, I would just like to comment again on the low approval rate. You asked for the experience in 1982. It is one thing to have to wait 10 months for your decision, but when the decision is no, regardless of how long you wait, maybe I do not even want to see it anyway.

In 1980 there were over 5,000 petitions filed on behalf of about a million workers. The Department certified petitions covering almost 600,000 workers. That was in 1980. Now, in 1982 there were 1,000 petitions filed, down from 5,000. And 18 percent of those petitions covering some 21,257 workers were granted in all of 1982. This is from the Department of Labor's summary of program activity.

And this just does not make sense. I mean we are in an even deeper recession than we were in 1980. I cannot understand how on the basis of a straight application of the tests set out in the statute, whether imports contribute importantly, we can have such a tremendous drop in the number of workers certified. Something is wrong.

Mr. PEASE. Mr. Sheehan.

Mr. SHEEHAN. Congressman Pease, could we add just one other item to this list of problems we are having with the program? We are relating here to you on the certification process or problem, but there is another one that more recently occurred as far as we are concerned.

There was an announcement that workers were entitled to training that they did not exhaust their training eligibility if they had been certified and drew benefits since 1975. When our members therefore sought that training at the various States, I must say there was a great deal of confusion at the State level. Now, I do not want to lay it all on the doorstep of the States, because there may have been a major communication gap between the Federal Government and the States in notifying the States, No. 1, that these workers were entitled to these training benefits; and No. 2, in communicating and getting the money to the States.

But even to this date we keep on getting questions as to what is this training program, we did not know that we were qualified. A great deal of confusion and, I must say, frustration on the part of

workers, because when they go to the State office many times they may be just be turned aside and say, well, we do not know anything about it at this time, come back again.

Mr. PEASE. Are any of you aware of workers who have been turned away in the last year for training not because of confusion over regulations but for lack of money where the State agency said, we do not have enough money? That was a problem, I know, several years ago.

Mr. SHEEHAN. Well, I could make one comment this way. In the Johnstown, Pa., area we had a shutdown at the Bethlehem Steel facilities up there with the announcement of training eligibility, they immediately went to seek this training that I talked to you about. After the original confusion more or less got resolved as to whether they were entitled, they then were told that we will have only 25 slots for training in the Johnstown area because the employment service was not too sure how much money it was getting, it is my understanding, and how it would be divided throughout the States or within a State.

Now, many areas are not trade impacted areas; and here, obviously, was an effort to spread a very minimum amount of money. However, with thousands of people unemployed in one area, all of whom or many of whom would be TRA recipients, you cannot come in with a program that slots only 25 training jobs.

Mr. KOPLAN. Mr. Pease, just going back to last year's hearing, I remember that you pointed out, for example, that in 1981 over 90 percent of the people who were in training paid for their own training.

And as I recall, in the bill that was introduced last year you had a provision for retroactive reimbursement. Your statement at that time was that these were people who were told that they were not going to be paid for training because there were no Federal moneys available. We would certainly support reinclusion of that type of a provision in H.R. 925.

Mr. PEASE. Thank you. What about the extension of TAA to workers in parts and supply firms? Does anybody have any estimate of how many workers that would add to the potential pool of eligible applicants?

Mr. KOPLAN. Your question raises a point that we have made in our testimony, and certainly such inclusion would be consistent with what we have argued for for years. I do not have a figure with me, and I will check and see if anyone else does.

Mr. PAGE. I recall when we discussed the Vanik bill originally, we discussed some ratio of parts supply workers to end supply workers, and I think it was 2.36 is the potential numbers. Now, there are 2.36 parts supply workers to each end product worker in the manufacturing sector. But I seem to recall when we projected the cost on the Vanik bill, we used a percentage of about 25 to 30 percent increase in the cost. That was when we were looking at TAA as primarily an income maintenance program. So perhaps that same percentage could be used for training purposes too.

Mr. KOPLAN. If we can come up with additional figures, we would be happy to submit them for the record. I will check that.

[No additional figures were available.]

Mr. PEASE. Yes; I would appreciate that very much. Obviously, if we try to include that in the bill, which I must say certainly seems logical, the first question someone will ask us is how much is it going to cost? And in order to calculate that, we need to have the number of people potentially involved.

Mr. KOPLAN. We will see if we have it both on parts and services. We will check on that.

Mr. PEASE. OK. Any other comments from any member of the panel on the administration of the TAA program in the last year?

Mr. SHEEHAN. I would like to make one comment. How it gets to the administration issue I think I will have to leave that to your judgment. In many of our steel certification notices, the determination of eligibility is somewhat complex, Congressman, and does not cover the total steel mill work force when a certification comes in. There are parts of the steel mill certified and other parts denied; and therefore when the announcement comes out, I think it is very important that there not be any increase in expectation among workers that are employed at that mill as to whom the TAA benefit actually does cover.

But we found that the process for releasing the certification lends to a great deal of confusion because for the most part it is usually released by the local congressional office who first of all have not in any way filed the application nor were they involved in the deliberation of the application.

And so when the announcement comes out that the Fairfield plant of the United States Steel Corp. has been certified, as I could understand a congressional office doing that, there is a great deal of confusion when indeed there may only be one fifth or one third of the workers eligible.

We do not notify through the congressional office every time someone is entitled to a social security benefit, and I wish that somehow or the other that the TRA applicant be first notified so that we can reasonably assess the coverage of the certification.

Mr. PEASE. One final question: Do any of you have any experience with the TAA program for corporations as opposed to workers? The administration has proposed zeroing out that aspect of TAA also. Do you have the impression that that program has been helpful?

Mr. POWDERLY. Well, the Steelworkers, and I am sure other unions can reflect their own impressions have had some extremely good experiences in dovetailing both where the workers got the trade adjustment assistance and the training that went with it, and where the company was certified as being eligible for credits, tax credits and money through the EDA, and the community was able to get money so that the Governor could put money in there for training.

I am talking about cases like International Silver in Meridan, Conn. That was a marvelous program where this trade adjustment assistance worked for the workers, for the company that had a chance to change its product from flatware that was simply ravaged by foreign imports and they came out of it selling specialty parts to the aerospace industry.

They made a recovery, the workers got retrained, the firm got reestablished on a good footing. And while not all workers went

back to work at that firm, a good percentage of them went back to work that was comparable or higher in skill and in pay, and the company survived.

And I think the Commerce Department ought to be able to document the successes it has had because certainly this is not the only one. It is the one that we are most familiar with. But I think just dumping the program and saying that it did not work is gratuitous.

Mr. PEASE. Very well.

Mr. Frenzel.

Mr. FRENZEL. Thank you, Mr. Chairman.

I would like to ask the last respondent about the TAA. I was under the opinion that we never had enough money in there to do anybody very much good. I think the most we ever had in there was \$12 or \$15 million. I do not recall any major benefits going to steel companies. Could you elucidate?

Mr. POWDERLY. Well, this was not a basic steel firm, Mr. Frenzel, this was a flatware firm that made stainless steel flatware. They are members of the Steelworkers Union, but it was not in basic steel as such.

Mr. FRENZEL. And the program was successful, as you observed it?

Mr. POWDERLY. By the accounts of the firm and certainly by the accounts of our union who looked at the employment situation afterwards.

Mr. FRENZEL. Staff informs me that my estimate was wrong, and that in this fiscal year there is some \$27.5 million devoted to this trade adjustment assistance.

Mr. Koplán, you testified in support of a broad program. We do have a program, or at least we approved one the end of last year called the Job Training Partnership Act, which includes a section for dislocated workers, I believe they called them.

A number of members of this panel have testified that there ought to be a separate program for trade, but you want to run two different training programs, or are you just talking about a separate schedule of benefits or what?

Mr. KOPLAN. We are talking about maintaining the separate program for trade, as was committed in the Trade Acts of 1974 and 1979. The Job Training Partnership Act, as I read the fiscal year 1984 budget request has a provision for \$240 million for fiscal year 1984 for any dislocated worker. There would be no separate provision for workers impacted by imports. I have serious questions in my own mind about how the definition of dislocated worker will apply, even in the trade area, as I have looked at the definition in title III of the Job Training Partnership Act.

But, yes, we are proposing the maintenance and strengthening of the trade adjustment assistance program, as it was committed in the Trade Acts of 1974 and 1979.

Mr. FRENZEL. OK. Well, forget about sums of money on which we might have differing ideas, is it useful to have two separate training programs; that is, the title III program and a separate training program aimed exclusively at trade dislocated people?

Mr. KOPLAN. Well, I think that there could be coordination between the two programs; for example, personnel administering one could be trained so that they were qualified to deal with the prob-

lems that we are describing with regard to workers who lose their jobs because of U.S. trade policy.

There was a dialog, though, on this when the hearings took place the last time, and at the time—and I happen to have it with me—I remember that Chairman Gibbons commented that he had run into—and he termed it—buckpassing in 50/50 programs, and under the Job Training Partnership Act, it would be a 50/50 program; in other words, 50-percent matching. And he said that he had a jaundiced view of that applying to this area. And I have a similar problem with that, his comment at the time, and I am quoting, is, "It won't work on a State basis."

Mr. FRENZEL. So your position would be, until the partnership proves it is a working partnership, you would rather have a separate training program?

Mr. KOPLAN. Yes.

Mr. FRENZEL. Another comment from the panel?

Mr. SHEEHAN. Yes, Mr. Chairman, I would like to comment on whether it is a separate program or not, that whether we do have the training component in the Trade Readjustment Assistance Act, it is my understanding, for instance, prior to the Jobs Training Participation Act, the TRA program was administered under the CETA program, so that the fact that we had a separate entitlement in the TRA did not necessarily mean that we also set up a separate program. The training program previously was administered really under the CETA machinery, the CETA system.

Now, the Job Training Partnership Act replaces the CETA program. I do not think that we need necessarily therefore replace the entitlement that we might have under TRA.

Second, and the part that Mr. Koplan made some reference to, when we read the Job Training Act for the displaced workers, it emphasized the fact that the displaced worker must be terminated as a result of a permanent closure of a plant or facility.

Now, of course, to be entitled to a TRA benefit, there is no requirement that your facility needs to have a permanent closure. You yourself may be permanently separated from a plant or even temporarily under the TRA, but for training purposes a worker may not return to the plant. That does not mean the plant is shutting down or the facility is shutting down under the Job Training Partnership Act that you just made reference to. The displaced worker must be displaced as a result of a permanent closure, so you will have an even further retrenchment of the current entitlements we have under TRA.

Mr. FRENZEL. As I read the recapitulation of section 302, title III, plant closure section, it seems to be only one of several qualifications. It looks to me like it is broad enough to be used in many instances.

But certainly I will concede that it is conceivable that it might not cover all. I was not so concerned about who qualifies as I was of having one program in each State for training that people could agree worked. And as I recall, in our old manpower training programs, we used to have recruiters out on the street trying to corner unemployed people for their program before the guy on the other side of the street cornered him. And I would like not to have a competitive situation.

Mr. SHEEHAN. I think early on, even the predecessor to the CETA program was MDTA, and I think it was through the MDTA program that TRA recipients received their training. So we did not set up a separate TRA training administration.

Mr. KOPLAN. I would say, if I recall correctly, that under the Job Training Partnership Act—and this is where we might have a disagreement on whether the amount of money is adequate—it is only intended to service nationwide, I think the estimate was 96,000 workers.

Mr. FRENZEL. I do not think there is any doubt about that. And of the \$240 million, as I understand it, only a quarter of it is specifically earmarked for training. I do not remember where the rest of it goes.

Mr. KOPLAN. As I recall, the administration has the right to reserve 25 percent of the total for a laundry list of things. But in other words, it would appear that 25 percent of the \$240 million will never be seen. I do not want to sound cynical, but the way it is crafted—

Mr. FRENZEL. In other words, that we would agree that nowhere near \$240 million?

Mr. KOPLAN. Exactly. That is right.

Mr. FRENZEL. And the \$240 million was originally contemplated to retrain 100,000 people, I guess; is that it?

Mr. KOPLAN. Well, that is what the budget indicates. The \$240 million is to retrain 96,000 people. But then when you get into the budget itself and you start reading, you see that the \$240 million is not actually going to be available, but substantially less than that.

Mr. FRENZEL. Do others on the panel want to comment on this?

Mr. PAGE. Mr. Frenzel, I would echo what the other panel members said. If you accept the rationale for the TAA program, to begin with, that the victims of trade policies have a right to expect some special assistance, then this does call for targeting some special benefits to people who are hurt by foreign imports.

The Job Training Partnership Act, of course, does not provide that targeting. And as I said in my testimony, unless you do provide for some targeting of benefits to workers hurt by imports, then the only recourse left to those workers is escape clause relief or legislation. And I do think that the TAA program offers a good alternative to less serious injury cases.

Mr. FRENZEL. If I might respond briefly, I noted that those alternatives have not been posed as separate alternatives. The complaint of the requesters has always been a full one, requesting an either or but all of them. I think that has been some of the problem, separating out what is right under the circumstances. If we are going to have a domestic content philosophy, then we certainly do not need any of this other stuff, because we are going to lock up our markets anyway.

But that is discussion for another day, and I would yield the balance of my time.

Mr. PEASE. Having poured a little gasoline on the fire, you are going to withdraw. [Laughter.]

Thank you very much, ladies and gentlemen.

Next we will hear from Ms. Joyce Kaiser, Associate Assistant Secretary for Employment and Training with the U.S. Department of Labor.

Mr. FRENZEL. Mr. Chairman, while Ms. Kaiser is approaching the bar, may I ask unanimous consent that Mr. Schulze be allowed to place questions in the record for response?

Mr. PEASE. Surely. Without objection, so ordered.

[The information referred to follows:]

Question: Is there a revolving fund into which monies are repaid on loans made to firms or industries under the TAA program?

Answer: Section 257 (c) of the Trade Act of 1974, as amended (19 USC 2347 (c)) provides that receipts may be used for financing functions under the trade assistance program. The Economic Development Administration (EDA) maintains a revolving fund account for loans made prior to October 1, 1981. For loans made after September 30, 1981, receipts are deposited in the ITA appropriation account.

Question: If such a fund exists, is it solely for TAA repayments?

Answer: No. The EDA revolving fund includes receipts collected under the Public Works and Economic Development Act. The ITA account funds ITA operations and administration.

Question: Is money repaid on TAA loans earmarked for future loans or is it paid over to general revenues?

Answer: Receipts placed in the revolving fund are not paid into general revenues. Under section 257 (c) of the Trade Act, they are available for functions performed under the trade adjustment assistance program.

Question: Is the administration of outstanding TAA loans handled by the Economic Development Administration or by the International Trade Administration?

Answer: All TAA loans and loan guarantees approved before September 30, 1981 are administered by the Economic Development Administration. All loans or loan guarantees approved after September 30, 1981 are being administered by the International Trade Administration.

Question: What funds are provided in FY 1983 and requested in FY 1984 for administration of outstanding loans, including collection of defaults?

Answer: Of the \$27.5 million appropriations in 1983, \$1.9 million is available for administration of the TAA Program.

Question: Would you provide a list of the grants and loans made under the TAA program since the Trade Act of 1974 went into effect, describe the purpose of the loans (technical assistance, marketing studies, technological improvements, etc.), and indicate which loans were defaulted.

Answer: In response to the above question we have attached two lists for your information:

Attachment A - A list indicating financial assistance (loans and guarantees) to firms by fiscal year of approval which includes the type of loan received and the dollar amount approved to each firm. We have placed an asterisk (*) beside each firm's name that is in liquidation or has been written-off by our agency.

Attachment B - A list entitled "Technical Assistance Firm and Industry Grants and Cooperative Agreements," which specifies fiscal year funded, purpose, and federal funds provided.

April 12, 1983

SUMMARY OF ATTACHMENT A - FINANCIAL ASSISTANCE TO FIRMS BY FISCAL YEAR OF APPROVAL
(LOANS AND GUARANTEES)

<u>FISCAL YEAR OF APPROVAL</u>	<u>NUMBER OF FIRMS WITH APPROVED ASSISTANCE</u>	<u>NUMBER OF FIRMS WRITTEN-OFF AS OF 1/19/83</u>	<u>NUMBER OF FIRMS IN LIQUIDATION AS OF 3/1/83</u>	<u>PORTFOLIO BALANCE AS OF 3/1/83</u>
<u>EDA</u>				
1976	9	2	...	7
1976 TO	2	1	...	1
1977	17	11	...	3
1978	69	36	13	20
1979	82	26	15	41
1980	67	8	18	41
1981	49	2	8	39
TOTAL	295	86	57	152
% OF TOTAL	100%	29.2%	19.3%	51.5%
<u>ITA</u>				
1982	12	...	1	11
1983 to date	4	...	...	4
TOTAL	16	...	1	15
% OF TOTAL	100%	...	6.2%	93.8%

LIST OF APPROVALS FOR TRADE ADJUSTMENT ASSISTANCE IN FISCAL YEAR OF APPROVAL
(Dollar Amount Approved)

DATA IS: PAID

FY	CT	NAME OF FIRM RECEIVING ASSIST.	ST	PRODUCT LINE	DIRECT LOANS				GUARANTEED LOANS				LOANS/CTY	UNTS
					FA AMOUNT	MC AMOUNT	UNIT	FIXED ASSET CONT. LIAB.	FACE VALUE	CONT. LIAB.	WORKING CAPITAL FACE VALUE	UNIT		
76	*01	Ally Stone Company	MA	Footwear	250,000	630,000	2	\$	...	\$	...	...	\$	800,000
76	02	Vermont Marble Company	VT	Stone, Marble	1,000,000	...	1	621,000	...	...	...	...	1,590,000	600
76	03	Beverly Granite	MI	Stone Quarry	250,000	...	1	...	...	...	...	...	250,000	51
76	04	Green Hall Bearing	OH	Ball Bearings	...	1,000,000	1	...	...	...	...	...	1,000,000	200
76	*05	Keen & Country	NY	Footwear	...	1,000,000	1	...	...	...	...	...	1,000,000	527
76	06	Dynamics Industries	NY	Power Conv. Prod.	...	600,000	1	...	...	...	...	...	600,000	482
76	07	Glenncoise Foundations	NY	Apparel	...	1,000,000	1	...	...	...	...	...	1,000,000	209
76	08	Sabrosa of California	CA	Footwear	...	700,000	1	...	...	...	...	...	700,000	598
76	09	Donagrate, Inc.	LA	Apparel	...	...	...	...	...	2,000,000	3,000,000	1	3,000,000	640
		TOTAL			1,500,000	4,930,000	(9)	621,000	690,000	2,000,000	3,000,000	(2)	10,120,000	

DATA IS: PAID

Y 76 TRANSITION QUARTER

FY	CT	NAME OF FIRM RECEIVING ASSIST.	ST	PRODUCT LINE	DIRECT LOANS				GUARANTEED LOANS				LOANS/CTY	UNTS
					FA AMOUNT	MC AMOUNT	UNIT	FIXED ASSET CONT. LIAB.	FACE VALUE	CONT. LIAB.	WORKING CAPITAL FACE VALUE	UNIT		
76	10	Donagrate, Inc.	MI	Handbag	600,000	400,000	2	...	...	...	...	...	1,000,000	422
76	10	Donagrate, Inc.	LA	Apparel	...	750,000	1	...	...	...	...	...	750,000	...
76	*2	Frontier Sportswear, Inc.	PA	Apparel	...	1,000,000	1	...	...	450,000	500,000	1	1,500,000	466
		TOTAL			600,000	2,150,000	(4)	...	...	450,000	500,000	(1)	3,250,000	

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LIST OF APPROVAL FOR TRADE ADJUSTMENT ASSISTANCE BY FISCAL YEAR OF APPROVAL
(Dollar amounts represent Dollars Approved)

* Default - In Liquidation or Written-Off

APR 12 1943

* CR NAME OF FIRM RECEIVING ASSIST. ST. PRODUCT LINE	DIRECT LOANS		GUARANTEED LOANS		WORKING CAPITAL		LOANS/CR	
	FA. AMOUNT	WC. AMOUNT	UNIT	CONT. LINE	FA. VALUE	CONT. LINE	UNIT	GRAND TOTAL
* 1 Revellent Bag Corporation	19,700	555,000	2	...	...	...	...	574,700
* 2 Owl Industries	450,000	300,000	2	...	...	...	...	750,000
* 3 Halex Industries	353,000	120,000	2	...	...	...	...	473,000
* 4 Halex Corp. of Arkansas	750,000	...	1	...	...	3,000,000	1	3,750,000
* 5 Bell & Howie Mfg.	250,000	250,000	2	...	...	...	...	500,000
* 6 J. J. Purse, Inc.	203,000	747,000	2	...	...	...	...	950,000
* 7 H & C West, Ltd.	50,000	225,000	2	...	...	...	...	275,000
* 8 H & C Sportswear, Inc.	100,000	400,000	2	...	...	...	...	500,000
* 9 Camitol Footwear Corp.	...	750,000	1	...	...	...	...	750,000
* 10 Bell Knitwear	...	800,000	1	...	...	...	...	800,000
* 11 Divic Shoe Corporation	...	1,000,000	1	...	...	...	...	1,000,000
* 12 Howard Stores, Inc.	...	500,000	1	...	...	...	...	500,000
* 13 Howard Screen Printing	...	1,000,000	1	900,000	1,000,000	1,500,000	2	3,500,000
* 14 Penny Bag Company	...	900,000	1	...	...	...	...	900,000
* 15 Arthur Pallack & Co., Inc.	...	1,000,000	1	...	...	...	...	1,000,000
* 16 Allen Bros Carline Corp.	...	500,000	1	...	...	...	...	500,000
* 17 ...	2,175,070	10,097,000	(24)	900,000	1,000,000	2,850,000	(3)	17,772,000

* default - In Liquidation or Writen-off

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LIS: 3F APPROVALS FOR TRADE ADJUSTMENT ASSISTANCE - FISCAL YEAR OF APPROVAL
(Dollar Amount Approved)

APR 12 1983

Y	CT DATE OF FIRM RECEIVING ASSIST.	ST PROJECT LINE	DIRECT LOANS		FIXED ASSETS		GUARANTEED LOANS		PENDING CAPITAL		LOANS/CTY	JARS
			FA AMOUNT	RC AMOUNT	UNT	CONT. LIAB.	ACE VALUE	CONT. LIAB.	FACE VALUE	UNT		
8	01	Midwest Handbag Company	200,000	462,500	2	...	...	...	...	1	662,500	00
8	02	Sherry-Bender, Inc.	600,000	...	1	...	...	2,700,000	3,000,000	1	3,600,000	550
8	03	Shu Shoe Company, Inc.	120,000	400,000	2	...	...	...	...	...	950,000	40
8	04	Elfskin Corporation	375,000	580,000	2	...	...	...	...	...	750,000	06
8	05	Mrs. Day's Ideal Baby Shoes	251,000	497,000	2	...	...	...	...	...	600,000	171
8	06	Advert Reis & Company	125,000	475,000	2	...	...	...	...	...	835,000	311
8	07	Hy-Grade Sportswear	185,000	650,000	2	...	...	...	...	...	1,750,000	191
8	08	Joy Footwear Corporation	...	875,000	1	...	...	767,500	875,000	1	1,000,000	197
8	09	Kreiser Mfg. Corp.	...	1,000,000	1	...	...	...	...	...	800,000	156
8	10	Patkins, Incorporated	250,000	550,000	2	...	...	...	...	...	680,000	05
8	11	Bridgewater Shoe Corporation	264,450	415,550	2	...	...	375,000	416,667	1	666,567	146
8	12	J. N. Lion Corporation	250,000	...	1	...	...	720,000	800,000	2	2,600,000	548
8	13	Huntley of York, Ltd.	...	1,000,000	1	...	...	720,000	800,000	...	...	...
8	14	Shin-O-Kin Shoe Corp.	333,000	667,000	2	...	...	...	...	...	1,000,000	467
8	15	Colliers, Incorporated	1,000,000	...	1	...	...	1,500,000	3,000,000	1	4,000,000	400
8	16	Linda Joe Shoe Company	200,000	...	1	...	...	640,000	800,000	1	1,000,000	395
8	17	Temple Sound Equipment Co. Inc.	105,000	230,000	2	...	...	...	...	...	335,000	15
8	18	Well Knitwear, Inc.	200,000	200,000	1	...	...	...	...	...	200,000	21
8	19	Carnivale Bag Co., Inc.	200,000	450,000	2	...	...	...	...	...	650,000	610
8	20	Somew Knitting Mills, Inc.	1,000,000	...	1	...	...	1,000,000	2,000,000	1	2,000,000	463
8	21	Dats & Company, Inc.	100,000	500,000	2	...	...	1,350,000	1,500,000	1	2,500,000	477
8	22	Cartor Leather Goods	250,000	525,000	2	...	...	...	...	...	600,000	115
8	23	Footlight Parade, Inc.	300,000	600,000	2	...	...	...	...	...	775,000	72
8	24	Hygrade Handbags	...	300,000	1	...	...	...	...	...	900,000	171
8	25	Yellable Machine Works, Inc.	300,000	700,000	2	...	...	...	...	...	380,000	48
8	26	Tara Hall Clothiers, Inc.	...	550,000	1	...	...	...	...	...	1,000,000	391
8	27	A. Jacobs & Sons Company, Inc.	...	500,000	1	...	...	...	...	...	550,000	112
8	28	Trifine Trousers Company, Inc.	150,000	750,000	2	...	...	...	...	...	900,000	170
8	29	Latin Watch Case Company, Inc.	...	...	1	...	...	...	...	...	500,000	166
8	30	Edward Stores Corporation	...	...	2	...	...	900,000	1,000,000	1	1,000,000	108
8	31	Atlanta Umbrella Co., Inc.	450,000	500,000	2	...	...	...	...	...	950,000	39

70	* 11 William B. Kessler, Inc.	NY Apparel	...	1,000,000	1	630,000	700,000	2,070,000	2,300,000	2	4,000,000	1079
71	* 12 Danny Dore Incorporated	NO Apparel	...	...	...	...	...	1,900,000	2,200,000	1	2,200,000	127
72	* 13 Belmonte Alloy Forge Company	PA Forgings	...	870,000	1	...	...	...	...	...	800,000	149
73	* 14 Ray Mayo Footwear Corporation	WA Footwear	...	1,000,000	1	...	...	...	...	...	1,000,000	147
74	* 15 H. T. Shaw, Inc.	MI Footwear	200,000	800,000	2	...	...	...	...	...	1,000,000	254
75	* 16 Curlee Clothing Company	MO Apparel	1,000,000	...	1	...	...	...	...	...	1,000,000	695
76	* 17 Aerfab Corporation	NY Textile	...	811,000	1	...	...	...	...	...	811,000	303
77	* 18 Infanta Knitting Mills	PA Apparel	...	...	...	...	...	900,000	1,000,000	1	1,000,000	172
78	* 19 Inman Corporation	NY Industrial Gds	...	1,000,000	1	...	...	...	...	...	1,000,000	1114
79	* 20 Prescott Mills, Inc.	CT Apparel	...	750,000	1	...	...	...	...	...	750,000	199
79	* 41 Crown Corporation	CA Jewelry	50,000	200,000	2	...	...	...	...	...	250,000	
79	* 42 Tarris White Fashions	PA Handbag	...	625,000	1	...	...	...	...	...	625,000	
79	* 43 Rio Grande Valley Sugar	TX Food, Sugar	...	1,000,000	1	...	...	...	...	...	1,000,000	
79	* 44 Plinillas Seafood	FL Food Processor	...	...	...	...	...	2,700,000	3,000,000	1	4,000,000	
79	* 45 H. Hertzberg & Sons	NY Brushes	200,000	800,000	2	...	...	1,350,000	1,500,000	1	1,500,000	260
79	* 46 Johnson Brothers Shoe	NO Footwear	...	1,000,000	1	...	...	...	...	...	1,000,000	102
79	* 47 Rayne Sportswear	IL Apparel	...	...	...	...	...	...	...	...	1,000,000	636
79	* 48 Glenayre Raphael	NY Footwear	75,000	200,000	1	...	...	...	...	...	200,000	44
79	* 49 Acoustic Fiber Sound System	IN Car Stereo Spk.	...	225,000	2	...	...	...	...	...	300,000	72
79	* 50 Swabird, Incorporated	CO Apparel	...	...	...	...	...	2,430,000	2,700,000	1	2,700,000	201
79	* 51 Jelle Handbag	NY Handbag	150,000	990,000	1	...	...	...	...	...	990,000	111
79	* 52 Lyndelle International	PA Apparel	...	850,000	2	...	...	...	...	...	1,000,000	134
79	* 53 Tucker Shoe Corporation	PA Footwear	...	1,000,000	1	...	...	...	...	...	1,000,000	47
79	* 54 Pelors Sportswear	PA Apparel	...	1,000,000	1	...	...	...	...	...	1,000,000	244
79	* 55 Robert Lewis, Inc.	NY Apparel, Leather	...	1,000,000	1	...	...	...	...	...	1,000,000	171
79	* 56 Leachberg Jeans	CA Apparel	...	600,000	1	...	...	...	...	...	600,000	203
79	* 57 Chyweel Sportswear	NY Apparel, W	...	300,000	1	...	...	...	...	...	300,000	113
79	* 58 Hildum Mfg. Co.	CT Fishing Tckl.	...	150,000	1	...	...	...	...	...	150,000	24
79	* 59 L. N. Gross Company	OH Apparel	...	1,000,000	1	...	...	...	...	...	1,000,000	77
79	* 60 Washington Shoe Works	WA Stores, Wood	...	1,000,000	1	...	...	...	...	...	1,000,000	125

		1953		1952		1951		1950	
80	31 Lowmeyer Maid Footwear	MA Footwear	...	1,000,000	1	382,500	...	1,000,000	500
80	32 Amphipac Corporation	TX Electronics, TV	...	...	1	1,350,000	...	1,500,000	350
80	33 Allen Knitting Mills, Inc.	NC Textile Dyeing	...	1,000,000	1	...	892,500	1,050,000	2
80	34 B. & W. Crystal Company, Inc.	NY Radio Crystals	...	922,000	1	...	315,000	350,000	2
80	35 Cullen Casuals, Inc.	NY Apparel, Women	...	900,000	1	...	...	922,000	96
80	36 Sally Gee, Incorporated	NY Apparel, Women	...	1,000,000	1	...	...	900,000	48
80	37 Cavalier Clothes, Inc.	NY Apparel	...	467,000	1	...	...	1,000,000	446
80	38 Fearing Mfg. Co., Inc.	MA Livestock Tails	...	...	...	220,500	...	467,000	263
80	39 Fairfax Mfg. Company	MO Smoking Accessories	...	...	...	...	140,500	165,000	2
80	40 Richmond Glove Corporation	IN Apparel, Gloves	...	...	...	...	337,500	410,000	28
80	41 Aling Sportswear	MA Apparel, Sports	...	...	...	311,600	234,000	375,000	1
80	42 American Pillow Company	MA Apparel, Down	...	745,000	1	...	...	304,000	41
80	43 B. & W. Bag Company, Inc.	NY Apparel, Down	...	600,000	1	...	...	745,000	101
80	44 Miami Footwear	FL Footwear	...	160,000	1	...	...	600,000	96
80	45 Hilden Knitting Mills	MA Apparel	...	400,000	1	...	...	160,000	41
80	46 Amelbeck & Company	CA Apparel, Men	...	369,500	2	...	720,000	400,000	344
80	47 Finletter Foundry	CA Metal Castings	630,500	700,000	2	...	...	1,000,000	720
80	48 Johnson Steel & Wire Corp.	TN Apparel, Leather	130,000	300,000	2	...	...	810,000	119
80	49 Corporate Knitting, Inc.	NY Apparel	700,000	...	...	...	270,000	1,000,000	62
80	50 Johnson Steel & Wire Corp.	NJ Steel Wire	...	1,000,000	1	...	300,000	300,000	186
80	51 Methuen International	MA Textile Weaving	...	1,000,000	1	...	...	1,000,000	370
80	52 Shirlana Toys, Inc.	CA Toys	...	430,000	1	...	...	1,000,000	524
80	53 Lamlglas, Inc.	WA Fishing Rods	...	375,000	1	...	247,500	430,000	61
80	54 Stericycle Corporation	FL Thermometer Sth	162,900	835,000	2	...	...	630,000	60
80	55 Smithfield Sugar Corporation	TX Sugar Process.	250,000	150,000	2	...	...	997,900	90
80	56 D. B. Resenblatt, Inc.	MA Apparel, Men	...	800,000	1	...	...	400,000	22
80	57 C. & C. Siles Company	NY Footwear	...	1,000,000	1	...	1,012,500	800,000	405
80	58 S. & S. Inc.	NY Electric Prod.	...	...	...	...	...	1,125,000	575
80	59 Pandora Industries, Inc.	MI Apparel	...	1,000,000	1	...	1,360,000	1,700,000	241
80	60 Alvo Corporation	IL Photo Copying	...	...	...	...	2,430,000	1,000,000	875
			...	...	...	...	2,700,000	2,700,000	521

LISTING OF TRADE ADJUSTMENT
TECHNICAL ASSISTANCE FIRM AND INDUSTRY GRANTS
AND COOPERATIVE AGREEMENTS*

APR 12 1983

Grantee or Cooperator	Fiscal Years Funded	Purpose	Federal Funds Provided
I. TAACs			
State Univ. of New York at Binghamton	FY-78 to FY-82	Funding for NYS TAAC	5,340,744
New England Regional Commission	FY-78 to FY-80	Funding for New England TAAC	2,901,477
New England TAAC, Inc.	FY-81	Funding for New England TAAC	1,111,600
Institute of Public Administration	FY-78 to FY-82	Funding for Metro NY TAAC	4,228,555
New Jersey EDA	FY-78 to FY-82	Funding for NJ TAAC	2,804,716
Council for Labor & Industry	FY-78 to FY-82	Funding for Mid-Atlantic TAAC	4,589,514
Economic Planning & Dev. Council of Pennsylvania	FY-78 to FY-80	Funding for PA TAAC	1,526,395
Georgia Institute of Technology	FY-78 to FY-82	Funding for Southeastern TAAC	5,299,325
IIT Research Institute	FY-78 to FY-82	Funding for Mid-West TAAC	6,433,356
Applied Strategies Intl.	FY-83	Funding for Mid-West TAAC	1,300,000
University of Arkansas	FY-78 to FY-82	Funding for Mid-America TAAC	2,887,316
University of Colorado	FY-81 & FY-82	Funding for Rocky Mountain TAAC	1,070,000
Economic Dev. Council of Puget Sound	FY-81 & FY-82	Funding for Northwest TAAC	1,598,559
Univ. of S. California	FY-78 to FY-82	Funding for Western TAAC	6,557,231
Univ. of Michigan	FY-83	Funding for Great Lakes TAAC	712,129

* In addition to the projects listed in this table, 176 firms received trade adjustment technical assistance (\$7.3 million of Federal funds) through contracts with industry experts (consultants) to assist the footwear, textile and apparel industries (\$10.8 million of Federal funds) was accomplished through transfers of funds to other DOC bureaus and is not included in the above list.

Grantee or Cooperator	Fiscal Year Funded	Purpose	Federal Fun Provided
II Industry Assistance Projects			
National Handbag Assoc.	FY-78 to FY-80	Assistance to handbag industry	\$ 680,504
Amer. Ceramic Tableware Association	FY-79	Assistance to vitreous china industry	173,500
Amer. Restaurant China Council	FY-79	Assistance to earthenware industry	185,455
Amer. Cutlery Mfts. Assoc.	FY-79	Assistance to cutlery industry	258,500
Amer. Mushroom Institute	FY-79	Assistance to mushroom industry	249,912
Amer. Textile Machinery Mfts.	FY-79	Assistance to textile machinery industry	192,750
Gulf & South Atl. Fisheries Development Foundation Inc.	FY-77 to FY-80 and FY-82	Assistance to shrimp industry	490,000
State of Rhode Island	FY-79	Assistance to jewelry ind.	207,375
Amer. Jewelers & Silversmiths of America, Inc.	FY-80 & FY-81	Assistance to jewelry industry	199,985
Northwestern University	FY-78	Assistance to consumer electronics industry	500,000
University of Connecticut	FY-79	Assistance to industrial fastener industry	500,000
Lehigh University	FY-78	Assistance to steel industry	999,600
Battelle Memorial Inst.	FY-78, FY-79 and FY-80	Assistance to steel industry	602,455
University of Kansas	FY-78	Assistance to stainless steel flatware industry	500,000
Econ. Development Council of Puget Sound	FY-80 & FY-81	Assistance to shakes and shingles industry	341,000
Work Glove Mfts. Assoc.	FY-80	Assistance to work glove industry	229,808

Grantee or Cooperator	Fiscal Year Funded	Purpose	Federal Fi Provide
Pulp & Paper Machinery Mfts. Assoc.	FY-80	Assistance to paper machinery industry	3 60
New York City	FY-81	Partial funding for NYC's Salute to the Fashion Ind.	100
Luggage & Leather Goods Mfts. of America, Inc.	FY-81	Assistance to the luggage industry	254,
Amer. Pipe Fitting Assoc.	FY-81	Assistance to the pipe fittings industry	5,
Amer. Loudspeaker Mfts. Assoc.	FY-82	Assistance to loudspeaker industry	192,
Sporting Goods Mfts. Assoc.	FY-82	Assistance to sporting goods industry	139,
Hand Tool Institute	FY-83	Assistance to hand tool industry	70,
Footwear Center (Institute of Public Admin., Amer. Footwear Center, & Footwear Industries of America	FY-78 to FY-81	Assistance to establish an American Footwear Center	3,484,
Research Triangle Institute	FY-78 to FY-79	Technology related assis- tance to the footwear ind.	1,098,
Nat. Shoe Retailers Assoc.	FY-79	Marketing assistance to the footwear industry	38,0
SATRA	FY-78	Assistance to footwear ind.	10,0
University of Maine	FY-82	Computer related assistance to footwear industry	33,3
New Eng. Apparel Mfts. Assoc.	FY-78 to FY-82	Assistance to a regional apparel association	444,4
Joint Job Training & Research	FY-78, FY-79 and FY-81	Assistance to men's tailored clothing industry	1,845,0
Philadelphia College of Textiles	FY-78	Technology related assistance to apparel textile industry	300,0
Apparel Job Training & Research	FY-80	Assistance to the women's tailored clothing industry	150,0
Georgia Institute of Tech.	FY-78	Technology related assistance to apparel and textile ind.	600,0

Grantee or Cooperator	Fiscal Year Funded	Purpose	Federal Fu Provided
Society for Glass Sciences & Practices	FY-80	Assistance to hand made glass industry	\$ 269,600
Schiffili Lace & Embroidery Mfts. Assoc.	FY-79	Assistance to Schiffili lace industry	20,000
Master Textile Printers Industry Association	FY-78	Assistance to textile printing industry	10,000
National Knitted Outerwear Association	FY-79	Assistance to knitted outerwear industry	45,000
Institute of Public Admin.	FY-80 to FY-82	Assistance to apparel and textile industry	1,468,793
Atlantic Apparel Contractors Association	FY-80	Assistance to a regional apparel contractors indus- try association	30,000
American West Overseas	FY-78 & FY-79	Export promotion assistance to regional apparel industry association	131,000
American Apparel Mfts. Assoc. (AAMA)	FY-82	Assistance to apparel ind.	190,000
University of Southern California	FY-82	Assistance to a regional apparel mfts. assoc.	178,473
Southern Apparel Contractors	FY-83	Assistance to a regional apparel mfts. assoc.	110,125
<u>II. Other Projects</u>			
Port of New York/New Jersey	FY-79	Export assistance to trade- injured firms	228,800
City of Boston	FY-79	Export assistance to trade- injured firms	75,000
City of Miami	FY-79	Partial funding support for a trade fair to stimulate export of trade injured products	200,000
Assoc. Research & Analysis Cooperation	FY-80 to FY-82	Analysis to improve the delivery of services to trade-injured firms and industries	459,800

Mr. PEASE. Ms. Kaiser, we are happy to have you before the subcommittee, and we will let you proceed as you wish. We will put your full statement in the record. If you would like to summarize it, that is fine.

STATEMENT OF JOYCE KAISER, ASSOCIATE ASSISTANT SECRETARY FOR EMPLOYMENT AND TRAINING, DEPARTMENT OF LABOR, ACCOMPANIED BY MARVIN FOOKS, ADMINISTRATOR, TRADE ADJUSTMENT ASSISTANCE OFFICE; CAROLYN GOLDING, ADMINISTRATOR, UI PROGRAMS; AND MICHAEL MILLER, ACTUARIAL STAFF, UNEMPLOYMENT INSURANCE OFFICE

Ms. KAISER. Thank you very much. I would like to summarize. Prior to doing that, however, I would like to introduce Mr. Marvin Fooks who is the Administrator of the Trade Adjustment Assistance Office and Ms. Carolyn Golding who is our Administrator for UI programs, and Mike Miller who is on the actuarial staff in the Unemployment Insurance Office.

I am just going to take a few minutes to summarize the testimony. I do not think you need me to read it to you. Essentially, I think that we are all in agreement that a recovery in the economy would considerably abate some of the difficulties that we are all having with the unemployment situation.

At this point we believe that firmly. However, we do recognize that unemployment is both cyclical and structural, and the trade impacted workers are standardly part of our structural problem. We also believe that the proposals and the recently enacted Job Training Partnership Act will alleviate some of the difficulties that we are having with these structurally unemployed.

The Job Training Partnership Act that was signed by the President late last year does have provisions in it that will deal with the dislocated worker. I will address those in some detail later. We are also proposing to extend the Federal supplemental compensation program, and we are also proposing some other activities that will broaden the training opportunities for the unemployed.

In the Job Training Partnership Act the administration is requesting \$240 million. That training will cover job search, relocation, and supportive services. The matching provisions are in there. However, the proposed regulations that we have put forth do not define the match other than it must be from non-Federal funds. That means that it is the State governments' determination as to what constitutes the match.

In addition, there is some confusion I think about this match. There is a 100-percent match in States that have average unemployment figures. In States where the unemployment rate is high, there is a reduction of that match to compensate for the high unemployment rate in the State.

It is true that 75 percent of the money under that dislocated worker program will be put out by a formula. That formula is based on the relative numbers of unemployed in the State, numbers of people who have been unemployed over 15 weeks, and again, reference to the amount of unemployment that is over 4.5 percent.

The 25 percent I do believe will hit the light of day because it is required that that money go out to the States just as the 75 percent goes out. However, there is no match required, and the Secretary is required to publish in the Federal Register the methodology under which that money will be awarded. And therefore, it must go out; it is not, in fact, discretionary in the same sense as the old CETA title III discretionary funds.

There are three categories of eligibility for the dislocated worker program. A worker must be unemployed and eligible or have exhausted benefits, or the worker must be in a plant situation where the plant is going to be shut down and have been notified of the shutdown, and the last one, which is sort of the catch all, an individual must be long-term unemployed with little chance of employment in the same or similar occupation. Also, there is some reference in that provision covering people who have unemployment problems because of age.

In 1984 the program is expected to serve 96,000 workers. There is no certification process, as exists in the Trade Act. No petitions. The training is available to all dislocated workers. We have, in 1983, \$25 million available for this program which has been put out to the Governors. I should say we are putting out \$18.5 million and we are reserving the Secretary's 25 percent, and we will be publishing how the Governors can apply for that money.

In addition, the proposals that we are putting forth are not only to extend the Federal supplemental compensation, but also to have incorporated with that a voucher program. The voucher would allow a worker to use his benefit, half of his benefit amount for twice the period of time available to him, and bring that to an employer. And the employer then could use that money as a credit to his State UI taxes, Federal UI tax, or his Federal income tax; in that order.

We are also proposing to allow States to use some portion of their trust fund for training. There is a cap on that, I believe, of 2 percent at this point.

Insofar as the administration of the Trade Act, we have taken action to strengthen the training opportunities. There were \$25 million for trade training in 1982. We have also \$25 million for trade training in 1983. As you know, the TRA benefits become payable after individuals have exhausted their UI benefits. The workers in training are also eligible for an additional 26 weeks, that is necessary for them to complete their training.

The weekly benefit amount was set specifically at the same level as the State unemployment benefits, and that has continued. Job search and relocation have increased. During fiscal year 1982, 5,844 workers entered training, and \$18.4 million was obligated by the States. The Federal Government obligated all but \$85,000 of the training moneys that were available.

At the end of November 1982, we had 4,012 workers in training, and the detailed information, the report that was due to the Congress has, in fact, been sent to the Congress covering the trade activities through, I believe, the fiscal year 1982. In 1982, 1,560 investigations of worker petitions were conducted by the Department; 242 were certified as qualifying for assistance in whole or in part,

and 1,258 were denied; 18,946 workers were certified as eligible; 136,485 workers were included in petitions that were denied.

The larger proportion of denials, 86.2 percent, reflects a significant number of cases, particularly for components of products that did not meet the statutory definitions of trade impacted, as well as large numbers of cases where import impact was not found to be the cause of worker separation, but which were instead found to be largely the result of recessionary economic conditions.

The proposals we believe in the President's budget, which I have cited, and the major funding provided for new programs for dislocated workers in the Job Training Partnership Act address themselves to the worker groups which include the present recipients of trade adjustment assistance.

We believe that these programs avoid the necessity of continuing the Trade Act and, in fact, will probably provide more assistance quicker to those individuals that we are all concerned about.

That completes my statement, and if you have questions, which I am sure you will, I will be glad to take them.

[The prepared statement follows:]

STATEMENT OF JOYCE KAISER

Mr. Chairman and Members of the Subcommittee, we are pleased to appear before you today to discuss the operation of the trade adjustment assistance program for workers and Administration proposals for expanding services to workers.

I am sure we can agree that the most effective long-range solution to help the unemployed is a vigorous economy, but even after recovery there are some continuing problems that will need special attention. Many of these problems relate to the structurally unemployed, whose jobs, and possibly occupations as well, have been eliminated because of a changed technology or a change in the acceptance of their product in the market place. This is generally the case with workers whose jobs have been lost because of adverse effects of imports.

In addition, because of lagging high unemployment, we also need some shorter-term cyclical solutions. These too are included in the Administration package.

FISCAL YEAR 1984 PROPOSALS

We believe that the recent enactment of the Job Training Partnership Act, the proposed extension of the Federal Supplemental Compensation program, and other administration proposals for broadening training opportunities under State unemployment compensation laws, eliminate the need for any extension of the Trade Adjustment Assistance program beyond the present September 30, 1983, termination date. These proposals, when fully implemented, will apply not only to the relatively small number of dislocated workers now being approved for trade adjustment assistance, but also for a large proportion of the workers covered by petitions that are being denied because they do not meet the specifications established by the Trade Act. These programs include the following:

ADDRESSING STRUCTURAL UNEMPLOYMENT

Job Training Partnership Act/dislocated worker program

The administration is requesting \$240 million for fiscal year 1984 for State-operated programs to address the reemployment of dislocated workers through training, job search, relocation and appropriate supportive services. The Act requires non-federal matching as a State effort to ensure active State interest in the program. Matching requirements will be variable and will be reduced for States with rates of unemployment that are higher than the national average. Under the Act, 75 percent of the Federal funds will be allocated to the States on a formula basis. The remainder will be allocated by the Secretary on a discretionary basis so that special consideration can be given to the needs of States with critical unemployment problems and large pockets of worker dislocation. Each State will develop its method of identification of groups of dislocated workers who:

(1) have been or will be terminated or laid-off from employment, are eligible for or have exhausted unemployment compensation, and are unlikely to return to their industry of occupation;

(2) have been or will be terminated as a result of any permanent closure of a plant or facility;

(3) are long-term unemployed with little chance of employment in the same or a similar occupation in the area, including persons with barriers to employment by reason of age.

In fiscal year 1984 the program is expected to serve as many as 96,000 unemployed workers. A major advantage of this program is that workers affected by imports will not have to go through a lengthy petition process to qualify for assistance as they now do under T.A.A. Training and other assistance will be available to dislocated workers whether the elimination of their jobs is due to imports, technology change, or other factors.

This program is now getting underway in fiscal year 1983 with an appropriation of \$25 million. Governors have been notified of grants being offered to their individual States. Information on additional discretionary funding will be made available to the Governors in the very near future.

USE OF STATE UNEMPLOYMENT FUNDS FOR TRAINING AND RELOCATION ASSISTANCE

Under present Federal law, a State may use UI trust funds only for payment of cash benefits to unemployed workers. We want to give States who choose to do so greater flexibility in dealing with unemployment problems. More active and flexible use of State trust funds would be provided by permitting States—at their option—to use a portion of these funds, within reasonable limits, to pay for the costs of training the unemployed. Over time, such use of these funds will be cost-beneficial by improving the employability of those unemployed workers by sharpening their existing skills and by obtaining new skills for which there is present demand. This will not only help unemployed workers get new jobs but will reduce their risk of future unemployment.

This proposal provides a means whereby States can encourage individuals who have been permanently separated from their jobs to retrain or relocate themselves. States could tailor their assistance to the specific needs of the long-term structurally unemployed.

This would be a permanent change in Federal law and could be particularly helpful in providing assistance for permanently displaced workers, such as those impacted by imports.

STEPS TO ADDRESS CYCLICAL UNEMPLOYMENT

Federal Supplemental Compensation Act/job voucher alternative

We propose that the FSC program, now scheduled to terminate as of March 31, 1983 be modified and extended to the end of fiscal year 1983, and that an alternative, permitting an unemployed worker to elect the use of a job credit voucher usable by a new employer, be added. The new voucher system would be effective for new jobs taken by March 31, 1984. Both plans under FSC are directed at the long-term unemployed.

The principal details of FSC, with respect to weekly benefit amount and a duration of benefits based upon the level of unemployment in each individual State, would be generally similar to present law. Benefits will be available to individuals who have had firm labor force attachment and have exhausted all regular benefits.

Job vouchers to stimulate reemployment

Cash benefits offer needed support to the unemployed. But reemployment as quickly as possible is what the unemployed really seek and should have. As an alternative to FSC cash benefits, the Administration proposes that workers who have exhausted their regular and extended benefits may receive a tax credit voucher that will provide a direct dollar incentive to an employer who hires these long-term unemployed workers.

Under this plan, FSC recipients could choose to receive their FSC entitlements in the form of weekly vouchers that they could give to employers. Each voucher would entitle the employer to a credit against his State or Federal unemployment tax or his Federal income tax liability.

The program would be targeted to experienced workers with very serious employment problems; would offer a productive alternative to cash benefits by putting workers into jobs; and can be implemented quickly once legislation is enacted.

Our fundamental response to aid for the unemployed continues to be the permanent Federal-State Unemployment Compensation program. The Unemployment Compensation System is in place and, as strengthened by Congress and the Administration in 1981, is serving the country well.

It is important to note:

(1) We estimate that in fiscal year 1983 under the regular unemployment insurance program, \$25.23 billion will be paid to 12.5 million unemployed workers. These benefits will be paid from State unemployment trust funds, or, where necessary, repayable interest-bearing loans from the Federal general revenues.

(2) During the same period, under present economic assumptions, states experiencing high unemployment may pay Federal-State Extended Benefits during all or part of the fiscal year, in an aggregate amount estimated at \$4.41 billion, to 3.7 million individuals who have exhausted regular UI benefits. In each participating State, cost will be shared equally by the State UI trust fund and the Federal Extended Unemployment Compensation Account.

(3) Assuming the recommended extension of the Federal Supplemental Compensation Program until September 30, 1983, we foresee payment of \$4.32 billion to 3.4 million individuals who have exhausted regular UI benefits, and, where payable, extended benefits. All costs will be paid from Federal general revenues.

ADMINISTERING THE TRADE ACT

Mr. Chairman, you asked that the Department report on activities relating directly to the Trade Act, as well as to discuss fiscal year 1984 proposals.

We have taken positive action to strengthen training opportunities under the Trade Act:

The Third Continuing Resolution, enacted December 15, 1981, authorized expenditures of up to \$25 million for trade adjustment training, job search and relocation allowances. Secretary Donovan authorized allocation of the entire amount of \$25 million, distributed among 46 States. The release of these funds was aimed at providing assistance to eligible workers, most of whom were in the automobile and steel industries located in the midwest.

TRA benefits became payable after regular (and, if appropriate, extended) UI benefits were exhausted. Cash benefits in total have been available for up to 52 weeks, except where an individual was enrolled in a training program.

Workers in training continued to be eligible for up to 26 weeks of additional benefits if needed to complete a training course. Greater emphasis was placed on training unemployed workers in technical skills needed by expanding industries.

Trade Readjustment Allowance (TRA) benefit amounts were changed from a system with benefit amounts set specifically for TRA claimants to the use of the weekly benefit amount payable in each State to worker for like coverage under the State unemployment insurance law. The Administration believes that the measure of benefit eligibility should be one relating to the labor market attachment of a claimant, and that this should apply similarly to all qualified laid off workers, regardless of the circumstances leading to a layoff.

The level of cash allowances for costs of job search and relocation was increased.

During all of fiscal year 1982, 5,844 workers entered training and some \$18.4 million was obligated. Somewhat more than a million dollars was obligated for job search and relocation activities.

There were approximately 4,012 workers in training at the end of November 1982, the last date for which comprehensive information is currently available. More detailed data on fiscal year 1982 activities will be available in a report to be made to the Congress by the Secretary in the near future.

We believe the Department's funding needs for training for the remainder of fiscal year 1983 are adequately addressed by the appropriation of an additional \$25 million in the continuing resolution by the Congress for training, job search and relocation allowances.

The Department of Labor made progress in fiscal year 1982 and fiscal year 1983 to reduce the backlog of worker petitions for adjustment assistance with priority given to older cases. The backlog of 1,380 worker petitions at the close of fiscal year 1981 was reduced to 632 at the end of fiscal year 1982. The backlog began to rise again with the filing of 152 petitions in December 1982 by workers in the auto industry and an additional 134 in the same industry in January 1983. The Department is temporarily adding staff to deal with this most recent rise in caseload to keep the backlog from attaining unacceptably high levels.

In fiscal year 1982, 1560 investigations of worker petitions were conducted by the Department. Of these:

242 were certified as qualifying for assistance, in whole or in part, and 1,258 were denied as not meeting the statutory criteria.

60 petitions were terminated.

18,946 workers were certified as eligible to apply for worker adjustment assistance; 136,485 workers were included in petitions that were denied.

The larger proportion of denials, 86.2 percent, reflects a significant number of cases particularly for components of a product, that did not meet the statutory definition of trade impact as well as a large number of cases where import impact was not found to be the cause of worker separations but which were instead found to be largely the result of recessionary economic conditions.

During the first quarter of fiscal year 1983, of the 210 determinations issued, 76 or 36 percent, were certified and 134 or 64 percent, were denied.

Mr. Chairman, the proposals in the President's budget request which I have cited, and the major funding provided for the new program for dislocated workers in the Job Training Partnership Act address themselves to worker groups which include the present recipients of Trade Readjustment Assistance. Together with the basic unemployment compensation program, they provide comprehensive assistance to workers who have or will have suffered job loss because of the impact of imports on the plant or industry in which they worked. They avoid any need for continuing the present costly and extremely time consuming certification process, and treat all workers who are in similar circumstances in the same way.

Mr. Chairman this completes my formal statement. My associates and I will be pleased to respond to your questions.

Chairman GIBBONS [presiding]. Have they been introduced as proposals, or are these just budget proposals?

Ms. KAISER. The proposals are in the process of being drafted and they are, at this point, just budget proposals.

Chairman GIBBONS. Have you had any conversations with the States about where they are going to get their money?

Ms. KAISER. In terms of matching?

Chairman GIBBONS. The matching money.

Ms. KAISER. The matching, as I said before, is not specified in our proposed regulations. What we have stated is that it is up to the Governor to determine the match or cash requirements, so in-kind match will satisfy. UI benefits can also be used.

Chairman GIBBONS. Explain that to me a little more. I am Governor, say, and I want to take advantage of this program. What have I got to do?

Ms. KAISER. You have to certify to the Secretary of Labor that you will, indeed, match the funds that are available and then do so, and that match can include such things as buildings, equipment, and as I said before, the State's UI fund for the individual worker.

Chairman GIBBONS. Do you mean they have got to build new buildings, or what? I am Governor, and I just want to take advantage of this program. What do I do to take advantage of this program?

Ms. KAISER. Well, if, in fact, you have an empty building, you can use that. If you have cash, you can use that. If you have people who are not federally funded, you can make them available to the program and use that.

Chairman GIBBONS. That sounds like matching to me. That sounds like you have got to come up with some money, and I am just worried about where they are going to come up with the money. I do not know of any States that have any vacant buildings around.

Ms. KAISER. Well, at this point in our experience, at least in conversation and that is all I can give you at this time, the States do not seem to fear the matching provisions of the dislocated worker

program. We have had meetings with the State liaisons from the Governor's office, and only in a very limited number of circumstances has anybody indicated that they will have a problem with this.

That remains, however, to be seen.

Chairman GIBBONS. It has always been my impression that the States run pretty lean and that they do not have a lot of resources. They are in the same boat that most of us are in except most of them have constitutional requirements that they have to have a balanced budget, and they cannot borrow money or create money, as the Federal Government can. And I just do not see where they are going to get the money to do it.

You say it is not a 50/50 matching in case you are a disadvantaged State like well, some State with high unemployment.

Ms. KAISER. The requirement is that for every 1 percent that a State's unemployment rate is over the national average, their matching requirement is reduced by 10 percentage points.

Chairman GIBBONS. Well, that sounds fair. If they have the matching money at all; that is what really worries me. I realize if the States are going to administer it, you want to get them involved. The States would be administering these programs, they would be making the decisions as to who is eligible.

Ms. KAISER. Yes, sir. Within the parameters outlined in the law. However, those are very broad parameters.

Chairman GIBBONS. And they would make the decision as to what constitutes a valid training program?

Ms. KAISER. Yes, sir.

Chairman GIBBONS. What do we do other than put up money and put out some minimum standards; anything?

Ms. KAISER. We will audit against the standards that we put out. And in fact, there are performance standards that are attached to all of the programs under the Job Training Partnership Act which have to be put in place naturally. Those performance standards will address impact of the program, and there are provisions whereby if program operators in certain areas do not meet those standards, they have to be given technical assistance, or if their performance continues to be poor, the entire program in an area may have to be restructured and potentially awarded to some other operator.

Chairman GIBBONS. How much money are we putting up?

Ms. KAISER. Under the dislocated worker piece, \$240 million.

Chairman GIBBONS. How many people will that train, assuming it is all matched on a 50/50 basis?

Ms. KAISER. We do not estimate on a 50/50 basis. I think we have estimated on, I am just pulling this out of the air, I think we have estimated on a \$180 million match, and it is 96,000 people.

Chairman GIBBONS. How does that compare with the unemployed that we think are eligible, or might well be potentially eligible for this program?

Ms. KAISER. I cannot tell you the answer to that, only because the definition of dislocated, depending upon the studies that you read and what definitions are used, the numbers vary widely. I have heard numbers from as low as 100,000 to well over 1 million.

Chairman GIBBONS. And we are training 96,000?

Ms. KAISER. 96,000. However, the experience in the trade program, and I guess in some of the other training programs that we have operated, is that the take up rate for at least this clientele is not extraordinary. There seems to be a feeling that the plant will open up again and my job will come back.

Chairman GIBBONS. And the administration is proposing this in lieu of any trade adjustment assistance program?

Ms. KAISER. Yes, sir.

Chairman GIBBONS. Do you expect to ask for any dollars at all for trade adjustment assistance?

Ms. KAISER. We are expecting to ask for \$2 million for 1984, or have asked for it, for close out purposes.

Chairman GIBBONS. \$2 million?

Ms. KAISER. That is correct.

Chairman GIBBONS. Mr. Pease?

Mr. PEASE. Thank you very much, Mr. Chairman. Ms. Kaiser, I have a series of questions for you, both as to the administration of the program currently, and also, what your proposal is.

You say there is \$18 million this year, fiscal year 1983, distributed among the States for TAA. Is that right?

Ms. KAISER. No, I said that the last year there was \$25 million available; of that \$25 million the States obligated, I believe, \$18.5 million. In this fiscal year, we also have \$25 million plus the unobligated State balances of, I believe, \$5½.

Mr. PEASE. Have you made allocations of all of that money to the States?

Mr. FOOKS. The money has been allocated both to the Federal regions and to the States. Some money is held in reserve to accommodate special demands that might arise.

Mr. PEASE. What was the basis for the allocation? Unemployment levels in the States?

Mr. FOOKS. Essentially, experience under the trade adjustment assistance program.

Mr. PEASE. Numbers of workers certified and that sort of thing?

Mr. FOOKS. Numbers of workers certified, number of workers receiving benefits. Normally, a State that registered the most activity would have the biggest share of the funds.

Mr. PEASE. You were here previously when representatives of various labor organizations testified. They said there was a good deal of confusion in December when you made your change of policy on the eligibility of workers to receive training, who had been laid off over the last 2 or 3 years.

I must say in my own congressional office I have experienced some confusion, also. Could you tell us what efforts were made to educate the States and the State employment offices about this change in policy?

Mr. FOOKS. Well, the normal communication would be in the form of would be through the regional offices. We would notify the regional offices of the allocations available to the region, and the region would notify the State. And the local office communication would be with the State agency, its own headquarters.

This incident has been typical over the years, I think, with problems with the program that because of new personnel at local offices and the sporadic incidents of cases, caseload at local offices,

the word is not always out there when it should be, and is not always understood even when it is out there.

Mr. PEASE. But your position is you have no control over that?

Mr. FOOKS. We have limited control. It is a communication problem. We are doing what we can to make sure the States know that money is available. When a complaint is brought to our attention we go directly to the regional office and make them get to the State immediately.

Mr. PEASE. You think that situation is pretty well in hand now, regarding the change in rules for eligibility?

Ms. GOLDING. I think so, Congressman. After we encountered some of the problems that you and your staff and others alerted us to, we had some additional training for our regional office and State staff and issued clarifying instructions, for instance, in May of 1982 to try to be as clear as possible about what the new rules of the road were and what our expectations were. We think that written issuance in May was in turn used by States to develop their own internal directives.

Mr. PEASE. What has been your experience nationwide in terms of numbers of applicants for training as a result of that change that was announced in December?

Ms. GOLDING. We do not ask through our reporting system that applicants for training and denials for training be accounted for. What we do have reported is the number of people who enter training and complete training, and in 1982 we had 5,844 workers who did enter training, and 2,100 of those completed training during that year.

Mr. PEASE. Has there been a surge of any kind of applicants or approvals for training since December when you effectively made people eligible retroactively?

Ms. KAISER. I do not think, given the information that we can get from our reports, that we could actually tell you that in other than a hearsay fashion.

Mr. PEASE. I would even settle for hearsay.

Ms. GOLDING. Actually, the number of people entering training accelerated during the year, so that fewer were applying in the first and second quarters of the year, more in the third and fourth quarters of the year, and in fact, that increase did lead us to do some reallocation of our training money toward the end of the year to make sure that it was not sitting in the wrong place geographically. Where we knew there was going to be under utilization in a State, we tried to move the money out and put it into a State that indicated to us they needed more training resources.

Mr. PEASE. To your knowledge, are there any States at all now which do not have sufficient funds available to provide training for the workers who are currently making application for training?

Ms. GOLDING. There are none to our knowledge.

Mr. PEASE. So effectively, as far as you know, nationwide any employee who has been certified for TAA can apply for and get training following the normal procedures.

Ms. KAISER. That is correct.

Mr. PEASE. That is excellent.

Ms. KAISER, in your testimony you said you had taken positive action to strengthen the training opportunities under the Trade

Act, and you make the statement, cash benefits in total have been available for up to 52 weeks, except to an individual who is enrolled in a training program. That means that a person could get more than 52 weeks if he or she was enrolled?

Ms. KAISER. Yes, sir.

Mr. PEASE. For an additional 26 weeks maximum?

Ms. KAISER. That is correct.

Mr. PEASE. And what did those additional 26 weeks of benefits amount to? Would they be subsistence at the level of State unemployment benefits?

Ms. KAISER. It is the same level of benefits. The issue is to allow the individual who has started a training program to complete.

Mr. PEASE. Do you have any idea at all of what percentage of workers who enter into training are able to take advantage of that additional 26 weeks or some part of it?

Ms. KAISER. I do not. Maybe someone does. The only information I have is that the standard week in which people enter training is in the 32d week. So that in terms of how long their training program would last, it would be dependent—

Mr. FOOKS. It is possible that under various extended benefit programs that workers who might be in the situation of requiring that additional add on would not be getting TRA; they would be getting an extended benefit under another program.

We do have data; 631 workers of those in training received benefit payments under that 26 additional week add on.

Mr. PEASE. Thank you. You mention in your testimony, Ms. Kaiser, that the level of cash allowances for job search and relocation was increased. Do you know what those increases were?

Ms. KAISER. It was to \$600 on relocation and job search. I believe it was \$600 or 50 percent of the Federal rate per diem.

Mr. FOOKS. I believe the 1981 amendments increased the job search allowance and reduced the matching requirement from 20 percent to 10 percent on the part of the worker. And the relocation allowance matching requirement was reduced to 10 percent, and the relocation allowance amounts to reasonable and unnecessary expenses, so they also received a lump sum settlement and payment.

Mr. PEASE. I see. Now let's talk about certification of workers. You say in your testimony the backlog of 2,380 worker petitions at the close of fiscal year 1981 was reduced to 632 at the end of fiscal year 1982. But that it rose again in December of 1982 and January of 1983 when additional petitions were filed.

What is the normal processing time? How long does it take? Our friends from the labor union say it is still taking a long time.

Mr. FOOKS. It is taking longer than it should. It is taking 6 to 8 months. We got down to as low as 5 months; in some cases it is being turned out in less than 6 months, but the average is between 6 and 8 months. The backlog was reduced to 629 at the end of fiscal year 1982, and if it were not for the recent filing of over 300 petitions by the UAW on behalf of the various automobile manufacturers, the backlog would have been in the lower 500's now.

As I say, it is 6 to 8 months. It is not the best but it is better than the experience that was characteristic in 1981.

Mr. PEASE. Was the testimony I heard a few minutes ago correct that in 1979 and 1980 at the height of the program, that the certification process only took 60 days or so?

Mr. FOOKS. In the life of the program I think we have only had a 4 or 5 month period, other than the first 2 or 3 months of operation where we were consistently issuing decisions within the 60-day period. That may have been for a short time in 1979 and 1980. We received in calendar year 1980 5,347 petitions, and that has essentially tied us up for the next 2 years in terms of our ability to process cases in a timely fashion.

Mr. PEASE. What is the reason that you are unable to keep up with these, or that you are unable to reduce the average processing time down below 6 months?

Mr. FOOKS. Well, it is essentially the workload. The average staff time per case in 1981 varied from a high of 16.1 staff days to a low of 5.5. Currently, it is taking us well, the latest ones took us an average of 13 staff days to do a case. So it is essentially a bottleneck problem. We get the cases all at one time and we do not have the staff to assign individual investigators to a particular case at the time it comes in. But once we get to a case, we can do it in a fairly expeditious fashion.

Mr. PEASE. What about these customer surveys that were cited before?

Mr. FOOKS. Customer surveys normally take—there is a turn around time of about 20 days. We use mailgrams. We generally have a pretty good response rate. Our petitioners do not normally agree with the responses, but we found that they are fairly reliable, they are very reliable. And again, it is a question of having enough staff on hand when the caseload first arises so that the surveys can be gotten out in time and the information processed timely when it comes back.

Mr. PEASE. All right. Let me turn now to the future and maybe to the present. This Jobs Partnership Act that was passed last year, is that being implemented in this fiscal year at all?

Ms. KAISER. This is a transition year, and the provision of that Act that is being implemented is the dislocated worker provision as part of a transition piece in there that allows us to operate a program now even though the law doesn't become effective until October 1, 1983.

Mr. PEASE. Is there some money being put out this fiscal year for dislocated workers?

Ms. KAISER. Yes; \$25 million. As I said before, we are reserving 25 percent of that for special programs within states that are suffering high unemployment.

Mr. PEASE. And is that separate and apart from the TAA program?

Ms. KAISER. Yes, sir.

Mr. PEASE. It is. OK. Like Mr. Gibbons, I am somewhat concerned about the possibility of requiring the States to match funds and therefore leaving the determination essentially in the hands of the States as to whether we are going to have a retraining program for our displaced workers or not.

The TAA program was set up as a response by the Federal Government to Federal policy in imports to encourage free trade as a

national policy. As a national policy, we try to provide funds for workers who suffer thereby. It seems to me that now we are going to be saying, well, whether you as a displaced worker get any training or not depends on how flush your State is or whether your legislature and your Governor want to act or not.

Do you think that that is fair policy?

Ms. KAISER. Well, the issue is that the statement was made that one-fourth of that money is reserved by the Secretary. Now, in fact if the State cannot come up with a match, they can certainly apply for some portion of \$60 million that is available that does not require a match.

Mr. PEASE. If the Secretary were to respond to those requests, wouldn't that encourage other States to forget about the match, too?

Ms. KAISER. I don't think so in that the formula allocation would provide them substantially more money for their workers.

Mr. PEASE. Is there any breakdown contemplated of the \$240 million between workers who are import impacted and those who are not?

Ms. KAISER. No, sir.

Mr. PEASE. That would be up to the States again?

Ms. KAISER. Yes, sir.

Mr. PEASE. The administration is currently working on a jobs bill of sorts, trying to negotiate with the Congress. Does any part of that jobs bill, as far as you know, relate to import related workers?

Ms. KAISER. I have not been apprised of the contents of that bill so I cannot answer you.

Mr. PEASE. Statutory revisions to the TTA program in 1981 included a requirement that the Labor Department report quarterly to Congress on the status of funding for training and job search. According to our staff, we received only one report, dated May 6, 1982. Do you plead guilty to the delinquency?

Ms. KAISER. Yes; I plead guilty to delinquency. We have remedied the serious delinquency yesterday, and that report was forwarded.

Mr. PEASE. Do you expect to be able to maintain the quarterly schedule from here on out?

Ms. KAISER. Yes.

Mr. PEASE. Mr. Chairman, I think that is all.

Chairman GIBBONS. I thank the people from the Department of Labor.

Ms. KAISER. Thank you, Mr. Chairman.

Chairman GIBBONS. Our next witness is from the U.S. Department of Commerce, Mr. Lionel Olmer.

Mr. Olmer, we welcome you back from wherever you have just been. Every time I look in the paper, you are somewhere else.

Mr. OLMER. I hope it is where you think I should be.

Chairman GIBBONS. Well, I like the way you work over there, Mr. Olmer. I know you are busy, and we appreciate your coming today.

You may summarize your statement or proceed as you wish.

STATEMENT OF LIONEL OLMER, UNDER SECRETARY FOR INTERNATIONAL TRADE, U.S. DEPARTMENT OF COMMERCE, ACCOMPANIED BY BILL MORRIS, ASSISTANT SECRETARY FOR TRADE DEVELOPMENT; PAUL VOORHEES, BUDGET AND FINANCIAL OFFICER; AND LARRY BRADY, ASSISTANT SECRETARY FOR TRADE ADMINISTRATION, INTERNATIONAL TRADE ADMINISTRATION

Mr. OLMER. I would like to briefly summarize the statement. I have key members of the International Trade Administration staff with me: Assistant Secretary for Trade Development, Bill Morris, on my right; and on my left, Paul Voorhees, who is our Budget and Financial Officer; and on Mr. Morris' right, Assistant Secretary for Trade Administration, Larry Brady.

In summarizing my statement I would like to call attention to just a few areas that I believe warrant the particular attention of the committee, Mr. Chairman. We are asking overall for nearly \$145 million, and 2,382 positions.

The increase that we are requesting is in the area of trade administration, and that relates to improving our abilities in the area of export enforcement and export administration. The amount of money is \$2.67 million, and 35 positions.

In the United States and the foreign commercial services, our request is unchanged from last year. We think we are seeing some results of a relatively minor organizational change in the Department which has improved our ability to perform in that area.

As you know, Mr. Chairman, the programs operated by ITA cover four functional areas: Trade development, international economic policy, trade administration and the U.S. and foreign commercial services.

Mr. Chairman, since you are so familiar with the operations of ITA and since our budget request is only nominally to be increased, perhaps I could close the prepared remarks part of the session by pointing to three or four areas that I believe warrant particular care by us and scrutiny by you over the coming year.

In the area of the export trading company, which under principally Bill Morris' leadership is off to a flying start, by the end of this month we believe there will be over 10,000 Americans who have paid to attend a 1- or 2-day seminar in learning how to start up and participate in an export trading company.

These seminars have been held all over the United States and they have been, almost without exception, sold out. The kickoff one that I spoke to in New York had over 550 people, and 175 additional couldn't get tickets for it. That experience has been duplicated many times over in Bill Morris' direct experience.

Second, at the end of 1983 we will have completed the process of folding-in the State Department foreign commercial officers into our career program. We will have recruited from among the private sector and from within other parts of the Government into this new career service, which began in part because of your leadership 3 years ago.

We will by the end of 1983 have a composition which is roughly divided between people with business experience directly from the

private sector who have been recruited into the FCS and about half from the Government.

A third area which I know concerns many people in the Congress is that of a growing problem of debt in the developing world: That is to say, from our point of view the trade implications to this mounting debt problem. There are presently outstanding some 700 billion dollars' worth of debt from the developing countries, and the prospects for immediate repayment are not bright.

Secretary Regan under his leadership in the last week has negotiated what he hopes, and we along with him believe, will be a most viable solution in the interim period to bridge the plight of these developing countries and their inability to repay existing loans and continue to trade, but that is building enormous pressures for protectionism in a variety of countries and for a variety of reasons.

I am pleased in one respect, and it is only a professional comment that I would like to make, and that is that I think in significant measure because of our efforts we have brought to the surface the trade implications to this mounting debt problem in a way that I don't believe has been done before.

We have participated very extensively with the Treasury Department and the State Department in this effort, and I can assure you that at the top of the recipe list is the fact that anything that is done in the financial and economic area has a ripple effect into the trade area, and especially with respect to what had been our fastest growing markets, for example in Mexico and Brazil.

A fourth area, which is not at all new and has been with us for many years and I don't see it going away, is Japan. Under Bill Brock's leadership we have made some, we think, potential improvements, but they have yet to be realized in sales by U.S. corporations. We are devoting a great deal of effort to cracking some of Japan's markets and to learning how better to deal with the injury visited on American companies through their target industry practices.

The final area I would like to mention is that of the renewal of the Export Administration Act. That, as you well know, covers the administration of our export control laws, both the issuance of licenses as well as the enforcement of those laws as between American companies and their Government and as between our Government and foreign governments who, whether they wish to or not openly, and that is through the Cocom process, must adhere to our export regulations.

With that, sir, I would like to make myself available for any questions that you would like to ask.

[The prepared statement follows:]

STATEMENT OF LIONEL H. OLMER, UNDER SECRETARY FOR INTERNATIONAL TRADE, U.S.
DEPARTMENT OF COMMERCE

Mr. Chairman and members of the Committee. I am pleased to appear before you to discuss the International Trade Administration's 1984 "Operations and administration" appropriation request of \$144,900,000 and 2,382 positions. The amount requested for 1984 includes a program increase for Trade Administration of \$2,679,000 and 35 positions. Also included are transfers, one-time reductions, and pricing adjustments of -\$24,196,000 and 22 fewer positions.

We believe we are accomplishing our mission within a stable resources base. The increases we are asking for in Export Administration will support strengthened control of technology flow to the Eastern Bloc and other proscribed destinations and completion of a computerized export license tracking system. In the U.S. and Foreign Commercial Services, our request is unchanged from last year, but we are seeing results from the merger of these two services and from our expanded and toughened recruitment and selection process.

The programs operated by the International Trade Administration are grouped into four functional areas: Trade Development; International Economic Policy; Trade Administration; and the U.S. and Foreign Commercial Services. I would like to make several brief points about each area.

TRADE DEVELOPMENT

For our Trade Development activity, we are requesting \$30,786,000 and 428 positions, a net decrease of \$363,000 in appropriated funds, and 20 positions from the 1984 base. The proposed decrease is the result of additional revenues we will generate through fees for our export marketing information services. As a result of this increased recovery of costs from the direct beneficiaries of our programs, we will be able to shift 20 positions currently funded by appropriated funds to our Miscellaneous Trust Funds account.

Trade Development seeks to strengthen the export competitiveness of U.S. firms. Our programs encourage American firms to enter foreign markets through a wide variety of trade promotion and export information services. We also develop trade policies on a sectoral basis and policies relating to international export finance and service industry issues; conduct economic research and analysis in support of policy formulation; monitor and evaluate foreign investment in the United States; and administer the textiles and apparel import and export programs.

Trade Development also promotes the formation and operation of export trading companies and will administer the antitrust certification program under the Export Trading Company Act of 1982. We will begin accepting applications in May.

The Trade Adjustment Assistance program, which is currently part of the Trade Development activity, has been proposed for elimination. This program has not proven successful in helping U.S. firms adjust to foreign competition. Of the \$27,500,000 appropriated for 1983, \$20,100,000 will be transferred to the Small Business Administration to purchase defaulted, guaranteed Small Business Administration loans, and the balance of \$7,400,000 will be used to honor Trade Adjustment Assistance program commitments made through January 1983.

The Textile and Apparel Program is also an important part of our Trade Development activity. It has two functions; the first is to monitor and, where appropriate, restrain the flow of imports of textiles and apparel. The Program's second function is to promote the export of U.S. manufactured textiles and apparel will be carried out through approximately 20 overseas exhibitions and missions in fiscal year 1984. During 1982, the U.S. negotiated bilateral agreements with Hong Kong, Taiwan and South Korea limiting their growth in exports of textiles and apparel to less than 1 percent per year. The Department is responsible for implementing 27 bilateral textile agreements, and, in 1983, will participate in the negotiations for renewal of eight of these agreements.

INTERNATIONAL ECONOMIC POLICY

For our responsibilities under the Assistant Secretary for International Economic Policy, we are requesting \$9,956,000 and 205 permanent positions. Our responsibilities in the area are to contribute to the development of regional and multilateral economic policies which enhance U.S. trade and investment interests; provide marketing services which will further U.S. market access abroad; and develop remedial strategies applicable to long term trade and investment problems.

The International Economic Policy area (IEP) is organized on a regional basis with policy, analytical, and marketing functions combined for individual countries.

Through its Office of Multilateral Affairs, IEP assists interagency implementation of the GATT Agreements and participates in developing USG policies in the OECD and UNCTAD. IEP, working with the Foreign Commercial Service and other parts of ITA, fulfills the Commerce Department's responsibilities for monitoring foreign compliance with the MTN codes. In addition, we work closely with the USTR, through the interagency process, on GATT policy matters.

TRADE ADMINISTRATION

For our Trade Administration activity, we are requesting \$21,935,000 and 464 positions, an increase of \$2,670,000 and 35 positions over the 1984 base. Of the increased amount, \$1,000,000 is for the Export Administration program to complete and operate an up-to-date and efficient computerized export license tracking system. The system will provide automated license decisionmaking and intelligence systems to assist in controlling the flow of certain goods and technology.

The balance of the increase requested, \$1,670,000 and 35 positions, is for the Export Enforcement program to fulfill the Administration's pledge to strengthen our capability to enforce the export control laws and stem the illegal transfer of technology abroad. During 1983, we have requested approval to transfer \$1,509,000 to the Export Enforcement program to continue our drive to halt illegal technology exports.

In addition, we have requested approval to transfer 25 positions and \$555,000 in fiscal year 1983 to strengthen the Export Administration program and maintain the positive momentum which has recently been established through elimination of the license application backlog and similar reforms.

The Trade Administration office is responsible for a number of programs which regulate the flow of trade both into and out of the United States. This office implements export controls for reasons of national security, foreign policy, and short supply; conducts programs to oppose restrictive trade practices or boycotts; and operates to assure the availability of industrial resources for national emergencies and for national defense, energy, and other priority sectors. It conducts antidumping and countervailing duty programs to protect U.S. industry from injury due to sales of foreign goods at prices below fair value, and foreign government subsidization of imports into the United States. Trade Administration is also responsible for the Foreign Trade Zones, Watch Quota, Florence Agreement, and Foreign Excess Property Programs.

There have been a number of accomplishments in the Trade Administration area over the past year that I would like to share with you.

In 1982, the largest number of antidumping and countervailing duty petitions ever filed were investigated within all the statutory deadlines for the first time in history. While the 79 antidumping and countervailing duty petitions involving European steel exports received the most publicity, we also had 47 petitions involving steel exports from 9 other countries, and another 90 petitions involving other products.

In addition to this unprecedented case volume, some of the cases were the most complicated and important ones we have ever handled, including the recent case of Canadian subway cars. While there were tough periods where more staff could have been used, I believe our resources were adequate to handle this massive caseload, and I expect to be able to make the same report with respect to 1984.

The Office of Export Administration has reduced its backlog of export license applications from over 2,000 about 120, completed technical analysis to prepare for the COCOM list review, and brought on line a new computerized license information retrieval system that will permit businesses to call in and receive on the spot information on the status of their requests.

In June 1982, the Department's export control program was completely reorganized. The former Compliance Division in the Office of Export Administration was abolished, and the Office of Export Enforcement (OEE) was established. This entity and the Office of Antiboycott Compliance were put under the direction of a Deputy Assistant Secretary for Export Enforcement.

Additional experienced criminal investigators have been hired for the Office of Export Enforcement. Two new enforcement field offices have been opened in San Francisco and Los Angeles; the New York and Washington offices are being strengthened. We are procuring state-of-the-art investigative equipment for our investigators. We are working to better coordinate our enforcement program with other law enforcement agencies, and we are initiating a program to encourage voluntary compliance by the private sector.

The additional resources allocated to the Office of Export Enforcement and its new management have already shown significant results. OEE is currently working with United States Attorney's offices around the country on some twenty cases; at least fifteen of these matters were referred to the Justice Department by OEE since last June.

U.S. AND FOREIGN COMMERCIAL SERVICES

For our U.S. and Foreign Commercial Services activity we are requesting \$59,716,000 and 1,160 positions, unchanged from the 1984 base. The U.S. and Foreign Commercial Services promote the growth of U.S. exports through delivery of services at sites convenient to the business community in the United States and in overseas markets which represent some 90 percent of our export base. These sites include 48 District Offices in the United States and 121 posts in key export markets in 66 countries throughout the world.

The merger of the U.S. and Foreign Commercial Services in February, 1982 under one Director General has provided American business representatives with an integrated line of support from the U.S. to specific export markets.

Domestically, trade specialists hold over 5,000 workshops annually with almost 1/2 million participants and act as consultants to business, particularly small and medium-sized firms by evaluating a firm's export goals and explaining trade laws, financing, distribution, and shipping alternatives, as well as providing more generalized assistance and marketing information. District offices also enlist the support of and coordinate activities with state and local governments, trade association, world trade clubs, banks, and chambers of commerce.

Overseas, USFCS personnel identify trade opportunities and potential representatives for U.S. companies; provide business counseling and trade promotion support; assist in the implementation of export control and other trade regulation activities; provide U.S. business with the necessary link to host country governments (either to promote sales or to contest discriminatory practices) and serve as the focal point for reporting the numerous export opportunities which have resulted from the Multilateral Trade Negotiation (MTN) agreements.

Beginning in fiscal year 1981, the USFCS conducted annual large-scale campaigns to recruit candidates to serve in commercial officer positions previously encumbered by State Department Foreign Service Officers. Despite our demanding qualifications criteria, we have received an overwhelming response to each of our three annual recruitment campaigns. We received more than 1,100 applications in both the fiscal year 1981 and fiscal year 1982 cycles, and more than 1,300 applications in the fiscal year 1983 cycle.

Through carefully designed procedures to evaluate, screen, and score applications, and career-candidate "assessment center" examination procedure for finalists which is accredited by the Board of Examiners for the Foreign Service, we have selected approximately 40-50 exceptionally well-qualified applicants in each of the USFCS' three recruitment/selection cycles. The majority of those selected in the fiscal year 1981 cycle were capable and well-motivate Foreign Service Economic/Commercial Officers and mid-level ITA executives. The majority of those selected in the fiscal year 1982 cycle had private sector backgrounds in export marketing. In the fiscal year 1983 cycle, 75-80 percent of those selected will be from the private sector. Thus, over a three year period, our service will have evolved to approximately a 50-50 mix of the best from the public and private sectors.

ADMINISTRATION

Finally, we are requesting \$22,507,000 and 125 positions to provide administrative management services that support ITA program areas. This amount also funds centrally budgeted items such as office space, rental payments to GSA, telephone payments, and Working Capital Fund payments to the Department. There is no change in this item from the 1984 base.

Mr. Chairman, this concludes my prepared statement. I will be pleased to answer any questions you or the Committee may have.

Chairman GIBBONS. Thank you.

Mr. Brady, we had a long session this morning with Customs over export administration, and let me outline for you a scenario that happens every time I travel. First of all, we try to meet with the American people in our State Department and your people in the Foreign Commercial Service. We would like to see more of those people in the Foreign Commercial Service but we realize it takes time.

Second, we always try to meet with the American business community, and when we sit down with the American business community to try to figure out what the problems are and what we can

do to solve them, the first thing off the bat is the export administration law. They start raising the roof with us about not only the law but the administration of the law.

I guess my first question to you, Mr. Olmer, and to the panel is, Why do we need an export administration law?

Mr. OLMER. Mr. Chairman, that is an easy question. The harder question is whether the Government is collectively doing a good job in administering it.

Chairman GIBBONS. Let's start off with why we need it first.

Mr. OLMER. Well, we need it because it is a fact that the Soviet Union has acquired immense amounts of technology which has caused the western world to spend an incredible amount of money to respond to that military threat. It is very difficult to give you a precise figure, that is to say, a dollar amount which we believe has been made available to the Soviets through technology transfer, but it is a fact that they have benefited enormously.

They have benefited enormously because of the open nature of our society, and we don't propose to change that. They have benefited through a variety of illegal means, as through intelligence agents and the like. They have benefited through the availability of technical publications and the dissemination of technology all over the world, which makes it extremely difficult, but they also benefit because of the, we think, looseness in the administration of export controls, in the way it has historically been administered and the way in which in part it is being administered now.

The law as it stands is basically a good law. It tries to balance the needs of the exporting community with the interests of national security. Now, I know the EAA covers a far broader range of concerns than national security alone, and I don't mean to be disingenuous by just addressing the national security part. That element of it alone, however, in my view justifies its existence totally.

I would like to ask Mr. Brady, if you don't mind, sir, if he had any comments to make.

Chairman GIBBONS. Go right ahead.

Mr. BRADY. I think the next point to address would be how the executive branch managers do implement that law, and I think that is probably the concern that the business community has moreover, certainly over the national security provisions of the law itself.

In that respect I would make two points. One, controls are administered against Communist countries and Eastern Europe and the Soviet Union, and against some exports to the free world so as to prevent diversion to the Soviet Union. I don't think that the bulk of the business community is overly concerned about the controls to the Soviet Union. They don't like the delays, but we have reduced that significantly. The backlog of cases has gone from over 2,000 to about 140 or 150, depending upon the date. It is the mounting delays in what we call West-West cases that are, I believe, becoming of greater concern to the business community. That is a very, very legitimate concern.

Chairman GIBBONS. I would agree with you there.

Mr. BRADY. And it is one we are trying to deal with. And frankly, because of the Secretary and Mr. Olmer, we have been able to bring a computer on board that will allow us in the near future to

start processing applications totally on a computerized basis, give us the paper record that we need but nevertheless really expedite the process. I think we are beginning to make some progress.

Chairman GIBBONS. The complaint is made that we refuse to sell a product but our trading competitors around the world will sell that product to them that is equally as good as ours. What efforts are you making to make sure that this doesn't happen?

Mr. OLMER. That fits generally in the category of foreign availability determinations, in which the Commerce Department is charged with making an assessment as to whether or not a product and/or technology is available from other sources. We have not done a sufficiently adequate job. The Congress authorized and expressed its intent in the Export Administration Act of 1979 that it wanted that capability established and it wanted those determinations to be made. Money wasn't appropriated.

We have begun in a modest way the building of a capability to do that from within existing resources. We have done it by working more closely with the Central Intelligence Agency and the Defense Intelligence Agency and by hiring a private contractor with experience in this area to aggregate data from the private sector, whose willing cooperation we need to provide us with some basis for answering the question: Is that product or technology available from a foreign source?

But it is more complicated than that, Mr. Chairman. If it is available from a foreign source which is nonetheless controllable by the United States, we might still impose a limitation on the export of that product or technology. That is to say, if one of our Cocom partners had the same product or technology but was willing after a period of negotiation to restrain the export of that product or technology to the Soviet Union, we would nonetheless want to keep it controlled in the United States pending the agreement within Cocom.

With respect to other friendly countries outside of Cocom, as, for example, Switzerland, Sweden, Austria, we are and have been for the last couple of years attempting to work bilateral arrangements with them to try to convince these countries that there are certain types of technology and equipment which has military significance that in our common best interest should not fall into Soviet hands.

It is a slow, arduous, frustrating, and oftentimes unrewarding prospect, and in that process I would admit that American exporters are oftentimes penalized, but it is a process that I think we have to at least undertake. I would readily admit that, measured by results, it hasn't been as successful as it should be, but I think it needs to go on.

Chairman GIBBONS. I am talking now about West-West trade because I don't think there is much argument about East-West trade. You are in effect saying that it is true, then, that the American business community is at a disadvantage because some of our trading partners, of our trading competitors, are more generous in their appraisals of what is a critical product.

Mr. OLMER. In my judgment, without question that is true.

Chairman GIBBONS. What are we doing to come to some common understanding with them?

Mr. OLMER. Well, we have Cocom negotiations and bilateral negotiations taking place almost constantly in some form or other. As you well know, in the negotiating process you cannot always pull out the big hammer and say unless you do this time exactly what I want, I will restrain your imports to the United States.

I mean it is a question of convincing our allies of the merits, the substantive merits of our case, and we haven't always done a good job of that. We have frequently asserted a national security condition without proving it to their satisfaction. Sometimes they want to interpose economic necessity. They are perhaps more readily willing to say that economic necessity transcends national security until you show me that that particular technology or product is likely to result in our undoing, and if you can't do that—and so often we are not able to do that—they claim that jobs are at stake and they are going to go ahead and sell it.

That has happened, and I am afraid the prospects are that it will continue to happen. But again, it does not deny the necessity of the program itself.

Chairman GIBBONS. How many of these West-West type Cocom cases do we have a year, and how many people have we got working on the problem?

Mr. OLMER. I bet in 1983 we will get 90,000 license applications.

Chairman GIBBONS. What I am talking about is how many differences do we have with our trading competitors.

Mr. OLMER. I am sorry.

Chairman GIBBONS. How many of these come to an issue?

Mr. OLMER. Well, of that 90,000, only approximately 10 percent involve East-West trade cases.

Larry, how many people do you have?

Mr. BRADY. The Export Administration Office has about 175 people, and we have some additional temporaries, Mr. Chairman.

Chairman GIBBONS. How many of those 175 are paying attention to what goes on in Cocom, though, about our competitors?

Mr. BRADY. Well, we all do. The entire 175 do. However, your question is pertinent because at the time that we have a Cocom review, which we are having now, where all of the nations get together to arrive at what the embargo list is going to look like, where will we cut off on the level of technology, our expertise is devoted to that effort and obviously some of our licensing officers are taken away from case processing.

Chairman GIBBONS. In Cocom is this an ongoing process or is it a once a year process, or how often do you meet with Cocom?

Mr. OLMER. Well, there are several different kinds of Cocom activities underway. There is a regular, perhaps several times a month meeting in Paris, which is the headquarters of Cocom, in which individual technologies or products are examined by the Cocom representatives in terms of whether they belong on the list or whether individual cases should be approved.

Then there is a triannual, once every 3-years exercise to update the list. That is what Mr. Brady was referring to. That is what has been going on since last November. That is a constant effort beginning last November and is expected to last as long as a year, perhaps even a little longer, because of the enormity of the size of that list.

Chairman GIBBONS. When Cocom members venture into the disapproved list, do they notify us that they are venturing into that area, or do they just wait for us to discover it?

Mr. OLMER. No; I think that there is a difference between us in enforcement procedures, which we are trying to harmonize, and they have agreed to work with us in the harmonization process. But by and large, there is a discipline in which countries feel, I think, no compunction against coming in and saying here is an area where we disagree; we are going to license it. Or, here is an area in which we want an exception to the rules. We want an exception from the restraint, and we want it because of these reasons.

One of the problems, Mr. Chairman, is that the technology has gotten so sophisticated in the system, a computer is no longer a computer. It is a computer with a number of little bells and whistles that hang all over it, and software. And so if that computer processing capability is on a restraint list, the country to whom it is very important might come in and say we will modify it somewhat; we will modify it in such a way as, in our judgment, to fit within the authorized limitations, and then we will ask for an exception. That process is an extremely complicated one and is one of the reasons for extended delays that are experienced by not only American companies but by foreign companies as well.

Chairman GIBBONS. Well, let's assume we have an approved list of things that we are going to disapprove and that everybody has agreed to the list, with their exceptions. And, for instance, country X decides well, we are going to allow that one to be exported anyway. Do they wait for us to catch them or do they tell us?

Mr. OLMER. Most of the time, I would defer to Mr. Brady, but most of the time they will come in and say we want an exception, and they will be upfront and bold about it.

Now, we do have a number of instances in which we have caught or detected indications of an impending diversion, unauthorized diversion, apparently with the approval of the government. And in those instances, we involved the State Department in that diplomatic gesture known as a *de marche*. But as I say, I would refer to Larry as regards the willingness of most of these countries to come forward and say we want an exception because we believe we earned the exception, and here it is.

Mr. BRADY. I think, Mr. Chairman, very rarely will a foreign government knowingly, willfully violate the understanding that we have among the 16 nations. There are differences of interpretation because the list, the Cocom list, is a fairly general product category list, and obviously, not every piece of equipment is identified, and therefore, you have legitimate differences of interpretations. And sometimes, governments differ on that.

Mr. Olmer referred to some of the undertakings we have now and one of them is in the enforcement area to harmonize to get greater commonality in our enforcement procedures and also in our licensing procedures in each one of our countries so that one businessman is not put at a disadvantage vis a vis another in another country.

Chairman GIBBONS. This morning Mr. von Raab said his Customs Service was really the primary agent in the actual enforcement,

and I am talking about doing the police work in administering the Export Administration Act.

As I understand it, apparently your office helps prepare the list, helps grant the license. Where is the division line between Customs and you?

Mr. OLMER. Mr. Chairman, if I might start on that question, the authority which the Customs Service has to enforce the Export Administration Act derives from a delegation provided by the Secretary of Commerce. The authority for administering that act rests with the Secretary of Commerce.

In certain parts, as in enforcement, the delegation of authority has been provided because the Customs Service represents an agency of roughly 13,000 cops. And they have, on occasion, demonstrated the kind of zeal we would like to see in being tough in this area, and we clearly need the resources that they have available.

But the responsibility for the administration of the act that is to say, the processing of licenses and the negotiation of lists which are compiled representing technology and products and the determination, in fact, of whether a Customs seizure, one of the three out of every four that turns out invalid, is a proper seizure is a determination that the Commerce Department makes.

And, of course, there are many other aspects we have not talked about at all that are involved in the Export Administration Act; that is to say, human rights, antiboycott, antiterrorism controls, short supply controls and so on.

Chairman GIBBONS. Have you delegated all of these policing functions?

Mr. OLMER. No, sir. We share an enforcement responsibility; the delegation of authority to Customs is in a sense, a request for their assistance in performing necessary inspections and seizures in recognition of the fact that their size, relative to the Department, is roughly a 10-to-1 ratio.

Chairman GIBBONS. They're working around the docks and the airports all the time and that naturally falls in their area.

Mr. OLMER. That is right. And in addition, overseas they do have a longstanding historical relationship with foreign customs officials.

I would point out in the enforcement area it is our judgment that—and I think it is borne out by experience—that the really big cases, that is to say, cases that are not represented by a typographical error on a shipper's export declaration, which has occurred in certain seizures, but I mean really important cases come about because of a lengthy, arduous process of intelligence analysis over a period of months, which involves members of the U.S. business community who come forward to us because of a decent relationship with us, and share with us some concerns that they have or suspicions they have.

Or, I do not want to put it in a wholly patriotic sense, it is a competitive sense on their part that someone is getting away with something that they are not able to. Those kinds of contacts are built up in Mr. Brady's area, in the enforcement area, and by and large are shared with the Customs Service and the FBI.

We now have, I believe it is, 20 active cases, 15 of which have been referred to the Justice Department for prosecution. Those

have been developed in trade administration in the Department of Commerce on the basis of a very complicated and lengthy and very difficult intelligence analysis process.

Chairman GIBBONS. As I understood the testimony this morning—and I may not have understood it correctly—Customs says that their work would be expedited if they had a copy of the export license. Could you elaborate on that?

Mr. OLMER. Well, I am not sure that that comports with my understanding of what it is that has been requested from us. As you know, perhaps, Mr. Chairman, we process a great deal of proprietary information. Now, that is not national security, but to a small and medium sized and a large American corporation, that sort of information represents profits and jobs. And we treat that, by and large, as we would treat national security information; classified information of a different sort.

We have responded to the best of our knowledge and belief in an affirmative way to each and every request which the Customs Service or the FBI or the Central Intelligence Agency or anyone else has asked, who has a legitimate need on a discreet basis to inquire into this export licensing process.

But what we have resisted doing is providing a sort of shotgun distribution to the Washington community of every single application that we get. Given the fact that we have 90,000 of them in a given year, it would not only, we think, represent a derogation of our responsibilities to the business community, but would remove us from a position of responsibility which we have to make a judgment. The judgment is based upon a valid request. When we get such a request, we respond.

Mr. Brady, do you want to add to that?

Mr. BRADY. Mr. Chairman, I would just underscore that, and I would stress what Mr. Olmer said. There is a legislative prohibition in the Export Administration Act that precludes us from divulging the information business proprietary information unless the Secretary makes a national interest determination to the contrary.

What we have done and are doing with about four agencies in town that are involved with us in the enforcement operations is to get a memorandum of understanding with them. We have forwarded one to the U.S. Customs Service, we have been working on it for about 6 months with them. Frankly, we do not feel that there is a problem in terms of sharing the licensing information. They do have access to that; they can get the information that they need.

My enforcement officers and agents do not have the ability to take that information and then make it public. And no one does. The Secretary must make, according to the law, an individual determination of whether or not the information that Customs or we may have discovered in the course of an investigation should be used in court. Only then can proprietary information be made public.

But I really think that as far as the information sharing is concerned for enforcement purposes, I thought we were over that hump, and had come to a good resolution of it.

Chairman GIBBONS. Have you and Mr. von Raab discussed this recently?

Mr. BRADY. Mr. Chairman, we have had ongoing negotiations for the last 6 months, as I said. They sometimes do not understand the legal prohibition we have about the inability to use the information publicly without a secretarial determination. But that is part of the law, and we cannot change that.

Chairman GIBBONS. Is it a good part of the law? Should it be changed?

Mr. BRADY. No. I think to distribute, Mr. Chairman, or to allow to be distributed business proprietary information, a businessman's prices, where his markets are, how many he has sold, et cetera, would not be conducive to the growth of exports.

Chairman GIBBONS. What it sounds like to me is that you have got a group of cops you have hired. You have told them to go out and catch the bad guys, but you have not told them who the bad guys are.

Mr. BRADY. Mr. Chairman, we do not think that at all.

Chairman GIBBONS. Or what is bad.

Mr. BRADY. Mr. Chairman, let me take one step back for a moment, because Mr. Olmer referred to the fact that there is an inspection function and there is an investigatory function, and these things are substantially different and what they lead to is substantially different.

We in Commerce have had a historical relationship with the U.S. Customs Service going back for years when we had a very large contract with them to use part of their inspectors at all the ports as an inspection arm. There are very few major cases, particularly today in the high electronics area, high technology area, the microelectronics area, that one gets from inspections at the port opening crates. You do not get the big cases, you do not get the conspiracies in shipping design and manufacturing and production technology from that kind of an inspection apparatus.

In fiscal year 1982 I have some statistics that I can give you in terms of the detentions and seizures by Customs and by Commerce. Because we are closer in terms of the relationship between licensing officers and our own agents, the cases we detain have a much higher ratio of violations to them than do Customs. Their detention to seizure rate is something like 18 percent; ours is above 40 percent.

That is simply dealing with the inspection process, now, and that is one of the elements, by the way, that the business community is complaining about, in fact; that the rate of violations on the detentions is so small that it really has become an impediment to their being able to export on a competitive basis.

You have the other area which is the investigatory area, and we know precisely what we are aiming at, and that again is what the Under Secretary referred to when he mentioned 15 cases since June of 1982 that have been referred to the U.S. attorney, and they are primarily from investigations from intelligence leads from the fact that our agents have a very close relationship with the business community and there is a free flow of information.

Chairman GIBBONS. You still have to call on Customs to make the arrest, though, don't you?

Mr. BRADY. We can detain; we cannot seize. I am hopeful that will be remedied in proposed legislation to reauthorize the Export Administration Act.

Chairman GIBBONS. How many people do you have that are actually out there playing the role of law enforcement officers?

Mr. BRADY. Excluding the antiboycott staff there are now 88 people; approximately 6 inspectors, 45 agents, and the remainder are supervisory and support personnel.

Chairman GIBBONS. Do you feel, though, that the big part of the job that you do; that is, the effective part, is in granting the license to begin with?

Mr. BRADY. Mr. Chairman, they are two entirely separate functions, and the licensing function is organizationally and physically separate from the enforcement function. They have, obviously, a very close relationship because they both are under ITA.

Chairman GIBBONS. What percent of our foreign trade has to be licensed?

Mr. BRADY. It is very small. Less than 5 percent.

Chairman GIBBONS. Is that on volume or dollars?

Mr. BRADY. I think it is dollars, sir.

Chairman GIBBONS. Does that include munitions, too?

Mr. OLMER. No, sir. I will check the figure for you to be absolutely certain, but it would not include items controlled by the Office of Munitions Control, which is in the State Department.

Chairman GIBBONS. Well, let me ask you what I think is the bottom line question, then. Do you think the American businessman is correct when he complains to Members of Congress that it takes too long, is too expensive, and we are being out competed by our foreign trading partners on our products that we can sell in West-West trade?

Mr. OLMER. Well, the question you put to me requires a yes or no.

Chairman GIBBONS. Well, no, it does not. You can hem and haw on it a little bit if you want to. [Laughter.]

Mr. OLMER. My answer to the question would be that almost without exception, every member of the American business community that I have met accepts the need for national security controls. They have complained about the Commerce Department's administration, about the Defense Department's attitude toward expanding the list of technology and about the Customs Service's administration of inspection and seizures. But they do not, in my experience, deny the necessity.

So if I were to answer the question in short form, I would say yes, they have got a legitimate gripe but not to the extent that the act should be, or that the responsibilities should be seriously undermined.

And we are working with them. One of the major points I like to make is that the American Government is absolutely dependent upon the willing cooperation and support of the American business community, or it cannot have an effective program to limit the transfer of technology to the bloc. It just cannot do it. And ordinarily, almost without exception, we get that cooperation.

Chairman GIBBONS. I have spent a lot of time on export administration because it seems to be the complaint that I run into most

often overseas, outside, of course, of complaints about the way the host government is treating them. But the American businessman in a foreign country is usually pretty reserved about complaining about the host government where he lives. He does not want to run the risk of somebody telling on him.

Let's turn now to another very major part of your function, Mr. Olmer, and that is, of course, the import administration. Are you experiencing a large increase in antidumping and countervailing duty cases, and are we able to handle these in a reasonable length of time?

Mr. OLMER. The answer is yes to both parts of the question, sir. In the percentage terms, we could make a calculation that would demonstrate a 400-percent increase in the antidumping and countervailing duty petitions. We have processed all of these cases within the statutory limits allowed, without exception.

Chairman GIBBONS. On the import side, the major complaint I get is, one, it costs too much to bring an action; two, it takes too long and the patient is usually dead; and three, even if we got a good case the results are too uncertain. Can you think of any way well, let me let you respond to those first of all. Too long, too expensive, and too uncertain.

Mr. OLMER. Well, it is too expensive, it does take too long. From our point of view it is not uncertain, although the results may not satisfy the petitioner when an affirmative decision has been made. The cost, I believe, for an antidumping case, an individual case, is roughly \$100,000 in legal fees. The length of time is going to be 6 months, and the result, as I say, that is a subjective determination.

Most petitioners, even when they are "successful" would not dare to acknowledge satisfaction to a Member of Congress because they would sort of like to keep a sort of relative state of unease as between the administration of the law and the rest of the Government.

I would say that we have some hope of simplifying the procedures, and simplification ought to mean lower legal fees. We have put, again, under Mr. Brady, a program into effect to work closely with the legal community in Washington principally to devise a workable system to simplify the process.

I can tell you from my own heavy involvement in especially the steel cases last winter and fall that we could not have done it any faster, no matter how many people we had, and we could not have lived with the deadline imposed by the Congress that would have more severely circumscribed the process. It is just too complicated a question. As to whether it does any good is an excellent question, and by and large I think you are right; it is too little, too late.

Companies do not often seem to reflect a learning by experience, because they come back, more of them come back and the legal community continues to reap what I guess are substantial profits. But the law is not adequate to take care of the injury much of the time.

Chairman GIBBONS. One of my objectives in this session of Congress is to try to find ways to make these laws work more effectively within the framework of our international agreements. And I would appreciate any suggestions that you have. And we are going to have some hearings soon in which we actively seek suggestions

as to how the laws can be improved, because I think a part of the concern that is constantly expressed before this committee is it is too expensive, it is too little, it is too late, and therefore give me some other drastic remedy.

Now let me ask you another question. Why did the administration negotiate a bilateral agreement with the Europeans on the antidumping countervailing duty matters rather than just simply go in and enforce the law?

Mr. OLMER. Well, we continue to believe that we were enforcing the law——

Chairman GIBBONS. I should have said that.

Mr. OLMER [continuing]. And that the arrangement, as it has come to be called, was a solution authorized by the law and that the American business community judged it to be preferable to the duties and the fines that would have been collected and returned to the general fund of the Treasury, and that the American business community, represented by the steel industry, said—to itself, I presume, because they gave us just the final judgment—that collecting antidumping and countervailing duty fines is going to do x amount of good for us, but this arrangement, which is providing certainty in the marketplace for a predictable 3-year period to be enforced unequivocally by a combination of the European Commission and the U.S. Government, will do for us more in terms of helping to restore our competitiveness than would have been possible through the collection of duties. And this we chose as a last resort.

I might point out, sir, that we carried those cases to the bitter end. I mean we made final determinations and the International Trade Commission made final determinations as to injury before we reached that final negotiating position between the European Community and the U.S. industry.

Chairman GIBBONS. Well, I get the impression that the Europeans would just prefer arrangements in fact, they would like to arrange everything because it is sort of a market division thing which seems to satisfy their current economic thinking over there. And I am worried about whether we are walking into—I should not say their trap—but are we adopting what they want us to do with these arrangements?

Mr. OLMER. During the period of the negotiations we somewhat jokingly called the quest for an arrangement, a world arrangement in steel, an MFA, a multiferrous arrangement. And I have to say that there were a few among us who pounded the table at one time and said we are not negotiating a worldwide arrangement in steel trade, we are simply not doing it.

In the case of the European Community, we felt it was a clear exception to be granted, an exception for a lot of different reasons, Mr. Chairman, not the least among them being the fact that the Commission represented all of the European Community governments and that the Commission controlled already shipments, production schedules within the European Community, and had undertaken a commitment to phase out by 1985 all subsidies to steel, including the subsidies they were providing to close down outmoded plants.

And given all those kinds of circumstances, perhaps it was the best of several poor alternatives, but that is the basis for having reached that judgment.

Chairman GIBBONS. Are we contemplating any arrangements with Japan?

Mr. OLMER. To the best of my knowledge and belief and my earnest hope, we are not.

Chairman GIBBONS. On that note, I will leave you alone. Thank you for coming.

Mr. OLMER. Thank you, sir.

Chairman GIBBONS. Next we will hear from the Air Transport Association of America. And I hope all of your airlines are running on better time than this committee is running right now. [Laughter.]

If they are not, they would be out of business.

**STATEMENT OF JAMES E. LANDRY, SENIOR VICE PRESIDENT
AND GENERAL COUNSEL, AIR TRANSPORT ASSOCIATION OF
AMERICA, ACCOMPANIED BY JAMES R. GORSON, DIRECTOR,
FACILITATION**

Mr. LANDRY. Mr. Chairman, my name is James E. Landry, and I am senior vice president and general counsel for the Air Transport Association of America, which represents most of the scheduled airlines of the United States. Seventeen of our member airlines provide regularly scheduled air service between the United States and more than 70 countries.

I am accompanied by James R. Gorson, our director of facilitation, who is responsible for coordinating the airline industry efforts to facilitate international air travel and trade and works directly with the Federal inspection agencies of the U.S. Government in this regard.

We appreciate the opportunity to appear before the subcommittee to discuss the fiscal year 1984 budget proposals for the U.S. Customs Service.

Air transportation is the principal mode of transportation to and from the United States for international travelers. Air transportation also represents an extensive, increasingly important and growing international air freight and worldwide mail distribution system. Customs requirements impact upon this international air commerce, for inspections are mandatory at U.S. airports of entry and preclearance airports. We are therefore interested in budget considerations covering Customs staffing and procedures at gateway airports.

Modernization and simplification of Federal inspection procedures have gone forward during the past year. We commend the Customs Service for implementing a modified form of the red/green dual channel expedited passenger processing system at both Chicago and Houston airports. And we welcome plans to extend this modern system to other airport locations, including several of the passenger terminal facilities at John F. Kennedy International Airport in New York. We are also pleased with the accelerated specialized inspection system test, so called ASIST, that has been successful and is continuing at Los Angeles.

However, we are dismayed that the Customs Service, for whatever reasons, unilaterally withdrew from the ASIST program in Miami last November. Even though the modified red/green dual channel system has now been introduced at Miami International Airport, it must be recognized that continual changes are disruptive to passenger processing and are costly.

The dual channel and ASIST systems have been important first steps toward the development of a more selective, expeditious passenger inspection system which now should be expanded nationwide. Efficiencies in Customs cargo processing must also continue, and we note with pleasure recent intensified Customs/airline efforts to facilitate air freight imports and exports.

A joint Customs/airline cargo facilitation working group has been established to simplify and modernize Customs cargo processing, and initial results are promising. However, budget actions over the past several years have prevented the number of available Customs inspectors at U.S. gateway and preclearance airports from keeping pace with international traffic.

The fiscal year 1984 Customs budget proposals include further expenditure reductions, which we understand will reduce airport inspector levels by roughly 10 percent. Inspector staffing levels today, for the most part, are inadequate to meet current airport inspection demands. Despite improvements in passenger processing, this situation will deteriorate significantly in the coming peak international travel season. Steps to resolve it are needed now: either adequate numbers of Customs inspectors must be authorized, or a higher priority program to reduce inspector workload through continued modernization and simplification of current practices and procedures must be initiated, or both.

For the longer term, consolidation of the several inspection agencies or their functions or, at a minimum, an optimized interagency coordination must be pursued. At a joint Government/airline facilitation conference last November, ATA was requested to develop an analysis on how further efficiencies could be realized. The ATA analysis is being finalized, and we will be glad to supply a copy for the record when it is completed.

Essentially, the ATA analysis suggests a number of options and alternatives with respect to Federal inspection management at airports and notes how some of these options and alternatives might be accomplished.

The peaking of international flight arrivals has received considerable attention by the chairman and this committee. While individual airlines acting individually can make some adjustments in their international flight arrivals, we believe the best long-term solution is to facilitate the clearance procedures of Customs and the other U.S. inspectional agencies. This peaking aspect of modern airline operations is expanded upon in the attachment to our prepared statement, which I offer for the record.

We observe that the fiscal year 1984 budget message contains, as it did last year, a statement directing Customs to undertake various facilitative measures and procedures. I have quoted that section of the message in my prepared statement as well, Mr. Chairman.

[The statement follows:]

In enforcing the provisions of the Tariff Act of 1930, as amended, the inspection and control activity must: (1) accommodate the growth of persons and cargo entering this country; (2) open new ports of entry and expand service at existing ports to meet the needs of the traveling and importing public; (3) improve selectivity of Customs inspectional enforcement programs through improved techniques and equipment; and (4) achieve maximum utilization of Customs resources with minimum disruption of international trade and travel.

Mr. LANDRY. The proposed \$21 million cut in allocation for Customs inspectors is inconsistent with the directives in that statement. Unless a portion of the recommended cut can be restored or other reallocation of resources can be directed, severe congestion and delays in the processing of international air commerce will result.

Moreover, in fiscal year 1982 Customs collected \$9.9 billion, an increase of 8.5 percent over fiscal year 1981. This represents a return of almost \$19 for every appropriated dollar spent in carrying out Customs requirements and responsibilities. In view of this remarkable revenue generating record, we find it difficult to reconcile proposals to reduce Customs manpower by some 820 inspectors, which, in turn, will impact adversely on Customs revenue collections.

In conclusion, we strongly urge the subcommittee to assure authorization for adequate Customs inspector personnel at our international airports, to require Customs to establish initiatives to further simplify or combine the inspection process, and otherwise provide facilitation leadership in international commerce—leadership which this country enjoyed in the past for many years. Thank you, Mr. Chairman.

[An attachment to the prepared statement follows:]

THE
PEAKING
OF
INTERNATIONAL
FLIGHT ARRIVALS

The Best
Long-Term Solution

"The convenience of air passengers and shippers is the most important factor in developing airline schedules. To the extent that this results in a peaking of arrivals and departures of international flights, the best long-term solution is to facilitate the clearance procedures of Customs and other U.S. inspectional agencies."

Over the years, this has raised a question. Why don't the airlines respond to peaking with the seemingly simple approach of merely changing the schedules?

What follows is a brief explanation of the many factors going into development of airline schedules, convenient for passengers and shippers and economically sound for airlines. Then, a few suggestions are presented to overcome peaking by making the processing of arriving international passengers more productive.

Of all of the aspects of modern airline operation, none is more complex than scheduling. All of the airline's productive resources are involved, including aircraft, crews, ground personnel and station facilities. Successful scheduling requires that they all be combined effectively.

Many Disciplines Involved

done within the isolation of a single route segment. Each schedule change must take into account:

- Flight connections
- Crew scheduling
- Aircraft utilization
- Productive use of ground personnel and station facilities
- Aircraft maintenance
- Positioning of aircraft to originate other flights
- Curfews and other restraints on using airports at night
- Availability of Customs and Immigration inspectors

Flight connections, for example, require that schedules be tightly interwoven. Nearly every flight relates to hundreds of other flights, many of them connecting. The flight departure time from city A determines when the aircraft will be available at city B for assignment to another flight to city C. If the flight is not available at city B in time to make connections, the flight will not be economically productive.

FRANKFURT
Leaves 1:15 p.m.

KENNEDY
Arrives 5:00 p.m.

Flight numbers and times from Frankfurt to Kennedy:

- LH 740 7:00
- LH 751 7:15
- LH 752 7:30
- PM 731 7:45
- LH 753 7:55
- LH 752 8:05
- DL 700 8:15
- DL 701 8:30
- DL 702 8:45
- DL 703 9:00
- DL 704 9:15
- DL 705 9:30
- DL 706 9:45
- DL 707 10:00
- DL 708 10:15

Flight numbers and times from various cities to Kennedy:

- GA 183 8:32
- AA 81 8:51
- AA 82 9:01
- AA 83 9:11
- AA 84 9:21
- AA 85 9:31
- AA 86 9:41
- AA 87 9:51
- AA 88 10:01
- AA 89 10:11
- AA 90 10:21
- AA 91 10:31
- AA 92 10:41
- AA 93 10:51
- AA 94 11:01

Code	LO - LOT Polish Airlines	BJ - Agrotref Soviet Airlines
AA - American Airlines	NW - Northwest Airlines	TW - Trans World Airlines
DL - Delta Air Lines	PA - Pan American World Airways	UA - United Air Lines
EA - Eastern Air Lines	PI - Puolan International	AL - Alitalia
LN - Lufthansa German Airlines		

Aircraft schedules form the basis for crew schedules. Crew schedules, in turn, must conform with strict requirements on rest and layover times prescribed by the Federal Aviation Administration for U.S. carriers and by

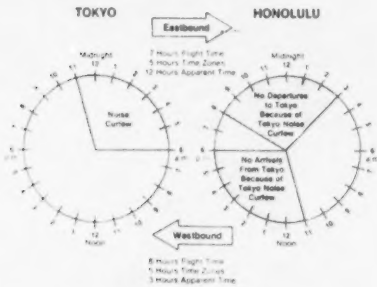
governments of other nations for their own carriers.

Good aircraft utilization is important in controlling hourly operating costs. If aircraft utilization goes down—from 10 hours a day to eight hours, for example—the per hour cost of a wide range of items, from depreciation to insurance and administration, all rise significantly.

Curfews have an impact far beyond the airport imposing them. The curfew at London affects the time a plane arrives at Boston. The curfew at Tokyo affects the time a flight arrives at Honolulu.

Limited resources often preclude the availability of Customs and Immigration inspectors to clear arriving international flights.

Effect of Curfews on Schedules



International Obligations

In international air transportation, the U.S. Government has certain obligations arising from bilateral agreements entered into with governments of other nations. The provisions of such agreements may not set forth specifically the right of absolute scheduling freedom. But it is implicit that airlines of each of the nations that are parties to the agreements are free to conduct operations in a way that will best serve passengers and shippers, while making the most productive and economic use of available equipment.

In short, there are many factors that must be weighed before a schedule change is made. As important as all of them are, there is another of overriding importance—customer convenience.

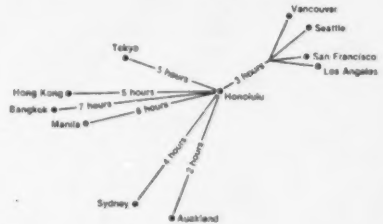
Customer Convenience

If an airline is to succeed financially, scheduling must conform to customer convenience. In the final analysis, the needs of the customer, that is, the market, must determine hours and frequency of airline schedules.

Schedule planners try to determine these customer desires. Then the challenge is to match them as closely as possible with workable schedules for operating the company's aircraft systemwide. The aim of the scheduling process is to fly a schedule that will satisfy the needs of enough customers to earn the revenue to pay for the schedule.

This is true of virtually all scheduling. But in the case of transcontinental flights and many international flights, the process is further complicated by the additional factor of time zone changes.

Time Zone Difference Between Various Cities and Honolulu



The Time Zone Factor

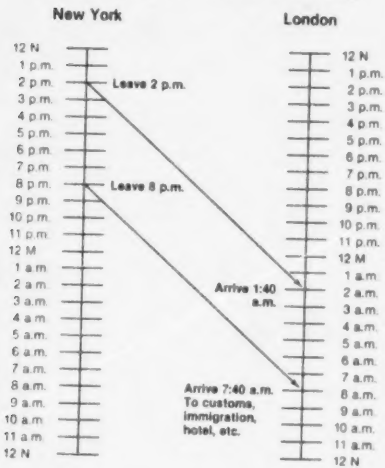
Five hours are lost on a flight from New York to London because of time zone changes. Hence, many periods during the day are not practical for transatlantic departures from the U.S. East Coast because they would result in inconvenient arrival times in Europe.

Sending the flight off from New York at 2 o'clock in the afternoon, for example, would mean an arrival time of about 1:40 the next morning in London—hardly an hour at which the traveler wants to cope with passport control, customs, currency exchange, transportation into the city and hotel check-in.

Consequently, most transatlantic flights from the U.S. East Coast to Europe leave in the evening, between 7 p.m. and 11 p.m., for arrival in European cities at times coinciding with the opening of business the next morning. Westbound transatlantic flights, taking advantage of the time zone factor, leave European cities at mid-morning or slightly later for arrival in the U.S. from mid-to-late afternoon.

Airlines do not peak international service deliberately. When peaking does occur, it is usually due to geography, time zones and other factors beyond the airlines' control.

Time Zones Are a Factor in Scheduling



The air transport industry, spending many millions of dollars each year to promote international air travel, has every reason to avoid delays in the clearance of passengers returning to the United States. But there is a better, more permanent way of avoiding clearance delays than through responding with schedule changes that cause disruption elsewhere in the air transport system.

Facilitating Customs Clearance

The better way is to make the clearance process more productive, hence quicker for most returning passengers. Here are some ways, in which this can be done:

- Through the more adequate staffing of Customs and the other inspectional agencies at U.S. gateways.
- Through the expansion of preclearance, whereby the traveler goes through U.S. inspectional procedures at an airport abroad before boarding his flight to the United States. Preclearance has worked well for U.S. bound passengers at cities in Canada, in Bermuda and in the Bahamas. It should be expanded to such places as Shannon, Frankfurt, Mexico City and Tokyo, and to other cities from which large numbers of international travelers board flights to the U.S.
- The more widespread use of the accelerated specialized inspection system through which an officer of Customs is also trained to perform the inspectional duties of an immigration officer, and vice versa.
- Adoption of the red/green dual channel system used in many other countries, and through other random selection and Customs sampling techniques.

To Recap

The convenience of air passengers and shippers is the most important factor in developing airline schedules. To the extent that this results in a peaking of arrivals and departures of international flights, the best long-term solution is to facilitate the clearance procedures of Customs and the other U.S. inspectional agencies.

Chairman GIBBONS. Well, I commend you for your statement. I agree with many of your views. Let me ask you. Of course, Mr. von Rabb, when he sat here this morning, and some of the other witnesses who were here this morning complained about the fact that it still takes a long time to get your baggage to the place that it can be inspected. Have you made any progress in that area? I know you have in Tampa, but I do not know about anyplace else.

Mr. LANDRY. I think we have had a number of task forces working on that, at the level of the passenger handling committees within our structure. And also it has been focused upon, I might say, even at our chief executive officer levels throughout the industry. We are working on it constantly. And obviously, in the marketplace environment that we are living in today, it behooves any airline to try to please those customers who may become few and far between.

Chairman GIBBONS. Are you all working toward some kind of electronic scanning device on baggage routing? I notice that Eastern Airlines now puts, it looks like a magnetic tape on your bags. Is there some industry movement toward that?

Mr. LANDRY. I am not familiar with that, Mr. Chairman. We have initiated some rather progressive baggage tracing techniques and procedures to try to get at the problem of so-called lost baggage, which often is just misrouted. And perhaps Mr. Gorson can add something to that, Mr. Chairman.

Mr. GORSON. Two points, Mr. Chairman. One on your observation of what is sort of like a supermarket checkout, with the stripes. That is for routing of that bag, the same as when a bag is checked, but by automation.

The other point that you mentioned, about delays in baggage, is very pertinent because it was at your direction 2 years ago to start the two tests, one at Miami and one at Los Angeles. Los Angeles is still in existence; Miami is not. That helped the baggage delivery, simply because Customs inspectors were up front at primary with Immigration, and that gave the airlines a buffer period, if you will, sir, in which to get the baggage to the carousel.

Unfortunately, since Customs unilaterally pulled out of this last November 15 in Miami, that buffer zone is there no longer. And consequently, the passengers do mill around today at the baggage terminal.

Now, I listened to the testimony this morning, and my perception is a little bit different from that of the Regional Commissioner, Mr. Battard, that it takes only 12 minutes to get through Customs. True, it takes 12 minutes to get through Customs once you get to the Customs line. But it can take anywhere from 2 to 4 hours to get to that line, as occurred on January 2 and 3.

I have an editorial on that in the Miami Herald, dated January 8, which I will be glad to submit for the record.

Chairman GIBBONS. We would like to have it. We have not seen it, and I would like to have it.

[The document referred to follows:]

[From the Miami Herald, Jan. 8, 1983]

END THE STACKUP

Among international travelers, Miami International Airport (MIA) is fast developing a reputation as a great place to suffer. Inexcusably irresponsible failures by U.S. Immigration and Naturalization Service (INS) and Customs officials are solely to blame. Their callous disregard for efficiency threatens not only the comfort, convenience, and safety of the travelers that they serve so poorly. These officials also endanger the reputation and economic development potential of Greater Miami.

Few times are more predictable as peak-travel periods than the first several days after Jan. 1. At MIA's international-arrivals center on those days this year, however, the peak loan almost became a mob. Credit inadequate INS and Customs staffing for that.

Travelers entering that MIA facility had just escaped up to 10 hours cramped in airliner seats, bear in mind. Because of the INS-Customs breakdown, this is what they found:

All halls were jammed. Few seats were available. Access to restrooms was restricted. People became ill. Tempers frayed. Eventually police were summoned to control the crowds, lest they riot.

The average international traveler being processed through MIA then had to wait 2½ hours to gain clearance. Some people waited as long as four hours. Who wouldn't be outraged?

The INS was most to blame. Even under normal conditions, INS staffing at MIA is skimpy. This time it was worse. For extended periods during the peak, only 13 INS agents staffed the 34 available inspection booths. INS's best effort was to man 19 booths. Even that level seldom was attained. One reason was the unprecedented amount of sick and funeral leave taken then by INS staff.

Customs provided 32 agents at peak. Because of strict, inefficient procedural rules, however, the Customs staff is prohibited from doing INS work, so the larger Customs staff made little difference.

This kind of outrage causes many serious ripple effects. The bad word travels fast and far. International travelers often are trend setters and opinion leaders back home.

Many of them missed connecting flights. Neither they nor the airlines need that. Airlines either make money or move operations elsewhere. Many are transferring their international business from MIA to Houston, Atlanta, Dallas-Ft. Worth, even Tampa and Orlando. Loss of that market share will affect passenger and cargo traffic at MIA.

It's simply intolerable that Miami should have to bear this unwarranted burden. Bureaucratic bungling of Federal agencies is principally at fault. From Customs and INS must come the obvious solution—and fast. They must assure sufficient staff at MIA to eliminate this recurring debacle.

Bureaucrats can be slow to move unless the political blowtorch of budgetary pressure is set alight beneath their back-sides. South Florida's representatives in Washington have plenty of fuel and many matches. They should not hesitate to turn the heat high.

Mr. GORSON. This also includes Mr. Battard's letter to the editor, and then from someone who went through the experience for 4 hours, their reply to Mr. Battard.

Chairman GIBBONS. Good. We will put all of that in the record if you will be kind enough to send me copies of that. I would appreciate having it for my own personal perusal. I am going to go back down to Miami again and see how things are going down there.

[The material referred to follows:]

[From the Miami Herald, Jan. 18, 1983]

CUSTOMS SERVICE RESPONDS TO AIRPORT "STACKUP"

To The Editor:

This is in reference to the Jan. 8 editorial wherein it is stated that "inexcusable, irresponsible failures by U.S. Immigration and Naturalization Service (INS) and Customs officials are solely to blame" for extremely long processing times for international passengers arriving at Miami International Airport (MIA) over the first several days after Jan. 1.

It may be the sincere belief of The Herald's Editorial Board that the citizens of Miami should blame Federal officials for endangering "the reputation and economic development potential of Greater Miami." I do not believe, however, that the facts in this case support that belief.

On Nov. 1, the Customs Service implemented an expedited passenger-clearance system that significantly reduced processing times, as had been demanded by the Miami Chamber of Commerce, and increased enforcement effectiveness, as requested by the Miami Citizens Against Crime.

Since that time, the average Customs processing time has required an average of 11.5 minutes. This includes the time when a traveler first enters the Customs area, retrieves his baggage from the carousel, goes through processing, pays duties (if applicable), and exits the area. On Jan. 2, one of the busiest days at MIA (15,826 international passengers arrived), the average Customs processing time was 10.2 minutes.

Contrary to the statement about inefficient procedural rules, Customs officers can do INS work. In fact, as the backups began to occur, Customs offered to process all arriving U.S. citizens so that INS could concentrate on foreign travelers. Such a procedure is now in effect at MIA.

In addition, we have informally discussed with INS the possibility of our handling resident aliens for them should future inordinate delays in processing appear to be imminent. Such talks are now in progress.

Customs officers have tried very hard to address the concerns of The Herald and that segment of our population that places a high priority on the facilitation of arriving passengers. We believe that we are adequately addressing those concerns as evidenced from the processing times shown above.

At the same time, however, we also have a sincere commitment to those people in Greater Miami who are concerned about the level of crime here and are represented by the Miami Citizens Against Crime and the Vice President's Task Force.

ROBERT N. BATTARD,
*Regional Commissioner,
U.S. Customs Service.*

[From the Miami Herald, Jan. 26, 1983]

WHAT EFFICIENCY AT THE AIRPORT?

To The Editor:

This is in answer to the Jan. 19 letter of Mr. Battard, regional commissioner of U.S. Customs Service. I arrived at Miami Airport on a flight from Mexico City on Jan. 2, at 2:15 p.m. Yes, the processing time after I got my baggage only took about 15 minutes.

But what about the two hours between the time of arrival and the time we reached the processing area—two hours when we were under the control of Government officials in a holding area? It can only be described as pandemonium.

Every few minutes the public-address system blatted out requests for patience and attributed the delay to a shortage of personnel until the crowd drowned out the announcements with cat-calls.

Yes, there were officers around us, wearing badges, but doing nothing, just looking on as if we were a bunch of sheep. There is no excuse for such inefficiency.

PHILIP ROSENBLATT,
Miami Beach.

Mr. LANDRY. Mr. Chairman, that was a so called ASIST approach, which has been an unqualified success at Los Angeles, I believe, and certainly something that at least the first cousin of it has worked very well for many years up in Canada.

Chairman GIBBONS. Well, I really do not see why we cannot just meet one person when we get off an airplane instead of having to have an Immigration official and a Customs official and an Agriculture Department official and all of those. I really do not see why we cannot get them all off. Most Customs people know an orange when they see it, or a piece of meat or something like that.

And the questions that are asked, I have stood there in line waiting to go through, and I have heard people ask all these questions. They do not seem to require a whole lot of specialized knowledge. But we have all of these three separate services out there sort of harassing people.

Mr. LANDRY. That will be the subject of the study that I mentioned that ATA is doing right now, an analysis.

Chairman GIBBONS. Of course, one of the problems is education. What are the airlines doing to try to educate their passengers a little more before they go on foreign visits or even before they board an airplane about what the Customs requirements are on the other end? Do you all have any unified program on that?

Mr. LANDRY. I think Mr. Gorson can describe that in greater detail. But of course, we do provide generalized background information to our passengers and indeed announcements, of course, are made over the PA systems.

Chairman GIBBONS. But when you are all loaded up on that plane, it does not do you a heck of a lot of good.

Mr. GORSON. You are exactly right, Mr. Chairman. Currently, 80 percent of our international travelers are ticketed by travel agents. But nonetheless what we do is to work in cooperation with Customs, Agriculture, and Immigration in terms of developing bro-

chures, which we make available when we ticket the passenger and give it to them, and to the travel agents.

We also make announcements aboard aircraft in connection with agricultural requirements, to speed up their inspections going through the formalities. This, and other programs we have underway, including with Customs' new so-called Operation Welcome to the United States, perhaps will do some of this preliminary work, or at least will alert the traveler not to bring the oranges and apples that you referred to when he gets off the airplane.

Chairman GIBBONS. Well, thank you. We look forward to working with you. And please keep us posted on what is going on.

Mr. LANDRY. Thank you, Mr. Chairman.

Chairman GIBBONS. Because if you do not keep them happy out there, we get them. And they are much easier to handle at your level. I agree with you, I do not see how in the world Customs is going to do it on the budget they have got. It looks like to me that we are talking about, even with magic, at Miami I do not know how you could. Cutting 1,700 people off of their employment rolls is going to seriously impede either some of their functions, I do not know which ones.

Mr. GORSON. Mr. Chairman, if I could comment. We are horrified. We have the Olympics coming up, and although Customs has allocated some \$3.6 million for that, you also have the New Orleans World Fair in 1984 fiscal year. And you also have a 25-percent increase in traffic at Seattle because of the introduction of the Orient service by United Airlines. That by itself will require additional people. With a cutback of some 820 positions, of which at least 10 percent will be at airports, we are just afraid we will not be able to meet our commitments in terms of service to our patrons, both shippers and passengers.

Mr. LANDRY. And one of the things that particularly mystifies us, Mr. Chairman, is that here you do have a true revenue generating agency of the U.S. Government, and this could very well impact upon the revenues that they are obtaining.

Chairman GIBBONS. Thank you very much. I agree with you.

Mr. LANDRY. Thank you.

Chairman GIBBONS. And the last of our patient people who have been waiting here for a long, long time, the Industrial Policy Council, if those of you are still surviving would come forward, we would appreciate hearing from you.

Mr. Williams, we list you first here. You may proceed and then we will hear the others. As I told all other witnesses, we will put your statements in the record in full, and you may summarize if you wish.

STATEMENT OF HAROLD WILLIAMS, PRESIDENT, INDUSTRIAL POLICY COUNCIL

Mr. WILLIAMS. Thank you very much, Mr. Chairman.

Let me just start by paying tribute to you for the wide range of subjects on which you have been an expert today.

Chairman GIBBONS. Or expressed my ignorance on, let's put it that way. [Laughter.]

Mr. WILLIAMS. I don't think I need to tell this committee that we have an international trading system that is in peril today, and this is an international trading system that has been built up over the past 20 years on the willingness of the United States to take in imports in ever increasing numbers, attacking its basic industries without retaliation.

If we are going to save that international trading system, we have to adopt a posture which will be realistic in the face of the ever increasing flow of imports that are coming into our markets. What are our strategies? What kind of strategies can we adopt to deal with this?

Well, one strategy is protectionism, obviously: that is, to stop the imports at the border. That is self-defeating. That will end up with the death of the international trading system.

Another strategy is to educate people to the comparative advantages, to tell people, well, if you will hang in there, in the long run everybody will be better off if we have a free trading system and we rely on comparative advantage. Today we cannot depend upon that because people are so desperate. So many people are unemployed, so many businesses have been hurt that they are just not going to sit back and take that.

I think that the gentlemen in Congress know better than I do the pressures that are being felt today by people who have been harmed by imports, so if we just sit still and rely on education, it is not going to work.

A third strategy we could take is one we have taken in the past, and I will call that compensation, and that is what we did with the old trade adjustment assistance program for workers, and to a certain extent the way the trade adjustment assistance for firms worked in the past. We would compensate the victims and somehow hope that would help, but that is awfully expensive, and the end we found that they don't always adjust, that they just get compensated for a while and nothing happens.

I would like to suggest that this committee undertake a fourth strategy for this country and call it adjustment, but true adjustment, a strategy that sits everybody down and says if you will come up with an adjustment plan, we will help you. I will talk a bit about what I think such a program ought to be in a little while, but what I would like to say at this point, this is not the time now to knock out the little adjustment assistance program we have.

It doesn't work perfectly but it does something. It is a symbol of a kind of help that we can give, and we are very, very grateful to this committee. You saved the program for us last year, and we are appealing to this committee to save it again for us this year, and we are hopeful that this committee after it saves it will sit down and take a look at a true adjustment program.

I would like to suggest that such a program might have four or five characteristics. One, there ought to be one certification process, not someone who has to go here, there and everywhere. We ought to have one agency that looks and says here is an industry in jeopardy, here is an industry that has been harmed, and once that has been done, we now have an established fact: there is an industry in trouble that needs adjustment help.

Next we ought to form a tripartite committee of Government, management, and labor, and they ought to sit down and be charged with the responsibility of preparing an adjustment plan. That adjustment plan might have some temporary border restraint in it, it might not. It would depend.

It might have some training and relocation allowances for workers. It might have some help for industry. It might have research and development assistance. It might have some below market loans. But whatever help is granted would be dependent upon everybody carrying out an adjustment plan which they have all agreed to and they are all going to keep.

Now, if we had that kind of an adjustment program, I think we could show the people of this country that we can protect the international trading system. The administration has asked for the abolition of the trade adjustment assistance program. In its prepared statement, Under Secretary Olmer, a man for whom I worked only very recently and for whom I have a great deal of respect, said that the program didn't work.

The gentlemen who are with me today are going to tell you a little bit about where he is wrong in that and that the program does work, and I am now going to ask them to speak to you.

Chairman GIBBONS. All right, fine.

[The prepared statement follows:]

STATEMENT OF HAROLD W. WILLIAMS, PRESIDENT, INDUSTRIAL POLICY COUNCIL

SUMMARY

A dynamic international trading system is essential to economic growth. An effective trade adjustment assistance program is an essential ingredient of a national trade policy that promotes the growth of the international trading system.

The Industrial Policy Council supports continuation of the trade adjustment assistance program for firms that is administered by the Department of Commerce. We believe the Administration is short-sighted to walk away from trade adjustment assistance at the very time that the legitimate concerns of workers, firms and communities are forcing legislators to take a long, hard look at restricting imports.

The Administration is correct to resist extreme protectionism and to promote exports, but unless it has an answer to those who have been harmed by imports, we will end up as a protectionist nation. Only an effective trade adjustment assistance program can provide that answer.

While the present program is small and has some problems, it is wrong for the Administration to use statistics based on past mistakes that have been corrected to label the program ineffective.

Much more needs to be done. While we are reluctant to press ambitious new programs at this time, we think that the Committee should begin to think about more managed adjustment programs that would be based on overall adjustment plans prepared and supported by tripartite committees composed of representatives from management, labor and the government.

STATEMENT

My name is Harold W. Williams. I am President of the Industrial Policy Council. The Industrial Policy Council is an organization that is concerned with the maintenance of a strong industrial base for the United States. We believe that a dynamic international trading system is essential to the economic growth of this Nation, as well as to the security and prosperity of the world. We also believe that an effective trade adjustment assistance program is an essential ingredient of a national trade policy that promotes the growth of the international trading system.

That is why we are here today to urge your support for the continuation of the trade adjustment assistance program for firms that is administered by the Department of Commerce. Unless that program is renewed by the Congress this year, it will expire by the end of the fiscal year. In fact, unless quick action is taken by the

Congress to disapprove the deferral of the trade adjustment assistance appropriation for fiscal 1983, the Administration intends to abandon the program by March 1, two weeks from today.

With all due respect to the Administration's arguments for the abandonment of this program, we think that it is short-sighted to walk away from trade adjustment assistance at the very time when the legitimate concerns of workers, firms and communities for the jobs and businesses that have been lost to foreign competition are forcing legislators to take a long and hard look at restraining imports.

And yet all of us know that protectionist measures taken by one country invite retaliation by others which in turn provokes more retaliation until the international trading system is shattered.

The Administration is correctly resisting extreme protectionist measures. At the same time it is vigorously promoting exports. But what can the Administration say, what can the Congress say to the unemployed, to the businesses that are being forced to shut down, to the communities that are losing their factories?

If there is no answer other than to try to convince those who have been harmed by import competition that the greater good demands their sacrifices, then we will end up with more protectionism, which will invite retaliation, and our export development programs will be useless.

There are really only four choices that Governments have to respond to international competition: (1) One choice is to try to convince the general public that in the long run everybody will be better off, even if some have been hurt badly at present. We don't think that choice is practical because the public will not buy it. And perhaps they should not buy it, because it is not at all clear that we will all be better off in the long run if our basic industrial structure is shattered by a flood of imports. (2) A second choice is to adopt protectionist measures and prevent imports from entering the country. We think that approach is self-defeating because it will invite retaliation and destroy a trading system that has contributed a good deal to our high standard of living. (3) A third choice is to compensate those who have been harmed. That approach has been tried in the past, largely through the trade adjustment assistance program as it worked several years ago. We found compensation to be much too expensive and to a certain extent ineffective since there was little incentive to adjust. (4) The only choice left is to establish and administer an effective adjustment program that focuses assistance on those who have been harmed by imports in a way which will help them to adjust.

The trade adjustment assistance program for firms and industries, as it is now administered by the Department of Commerce, is just such a program of adjustment. It is small and could use more resources. It is imperfect and could stand some changes. But we believe that it would be wrong to eliminate it.

In testimony earlier this month before a Subcommittee on Appropriations of the House Appropriations Committee, the Undersecretary of Commerce for International Trade made three points in support of the Administration's request to discontinue the program for firms and industries.

First, he said that he was not taking a position against adjustment assistance for workers, but only for firms. This point was somewhat strange, since the Administration is not requesting funds for the worker program in fiscal 1984.

A second point made by the Undersecretary was that this Administration was vigorously enforcing antidumping and other portions of the law dealing with unfair import competition. While this may be true, the Undersecretary does not maintain that such vigorous enforcement is preventing imports from damaging a large number of jobs, businesses and communities. Enforcement of existing law is simply not enough.

And the third point, which the Secretary made a number of times, was that the trade adjustment assistance program for firms had been ineffective, since 70 to 75 percent of the firms that had been assisted had failed to adjust. The problem with this number was that it refers to firms that had been assisted in earlier years when the program was operated by the Economic Development Administration more as a program to compensate businesses that had been harmed than as an adjustment program. Many of those firms have been hit hard by the present recession and high interest rates. There is not nearly such a high rate of failure to adjust among firms that have been assisted in the past two years, since new procedures were instituted and new emphasis was given to adjustment planning.

This committee heard dramatic and convincing testimony last year from businesses and industries that had been helped to adjust by this modest program. If the Committee had the time, we could bring scores of additional witnesses to testify on how this program has helped them.

The modest program of trade adjustment assistance for firms and industries now reduced to a level of slightly more than \$20 million cannot deal with the whole problem of adjustment to import competition. More needs to be done. We need to develop better tools and better techniques, and we need to build on our experience. When this Committee is ready to sit down and reexamine the whole problem of adjustment to imports, we will have more substantive recommendations.

We understand the present situation, and we are reluctant to present ambitious new proposals at this time. However, we do think that this Committee should soon turn its attention to the adjustment problem and how best we can mount a sensible, prudent and comprehensive program of adjustment. Such a program might well have the following characteristics:

(1) The certification process would be made simpler and given to one agency. In fact, it might well be appropriate to consider unifying the administration of trade adjustment assistance at the same time that consideration is being given to unification of our international trade agencies.

(2) Certification for adjustment assistance should be provided to industries rather than to individual firms or groups of workers.

(3) Some means must be devised to institutionalize the concept of "threat of harm" so that adjustment assistance can be given to industries under import attack before they have been weakened to the point where adjustment measures are insufficient.

(4) Government, management and labor must sit down together and develop adjustment programs for industries threatened by import competition.

(5) All assistance, of whatever kind, should be dominated by the concept of adjustment. Workers, firms and industries must undertake good faith adjustment efforts as a requirement for continued Government assistance.

Keeping these principles in mind, a single agency, perhaps the International Trade Commission, might have responsibility for determining that an industry has been harmed or is seriously threatened by imports. Upon such determination, a tripartite committee consisting of representatives from management, labor and the government would be formed to prepare an adjustment plan. That adjustment plan could have some temporary border restraint to enable the industry to undertake adjustment measures before it is knocked out completely, such restraint being conditioned on appropriate adjustment measures being taken by labor and management. The plan could involve some subsidy for training and relocation by workers, and it could also involve subsidies for research and development into new products and more productive operating procedures. Where appropriate, the plan could also include Government credit at below-market rates. The key, however, is that all parties on the tripartite committee would have to agree to the plan and would commit themselves to its implementation. When any party failed to carry out its obligations under the plan, the plan would be rendered inoperative.

We have had some experience with this type of approach, although in not nearly as structured a context. When the footwear industry saw itself rapidly being impacted by footwear imports, representatives appealed to the White House and a special footwear program was established in the Department of Commerce. It involved extensive technical assistance to individual footwear firms largely to improve their management procedures. It also involved Federal grants to the industry for research and development and Federal loan and loan guarantees to eligible firms. Orderly marketing agreements were negotiated in order to stem the ever-growing tide of imports and to give the industry an opportunity to adjust.

The program appears to have had moderate success. The decline in domestic share of footwear sales in this country was slowed. Exports of footwear increased. Employment has been stabilized or is declining only very slowly. A new footwear institute has been established to provide research and development services to the industry. While it is still too early to judge the program an unalloyed success the industry does appear to be somewhat more stable than it was in 1977.

Devising and managing effective adjustment programs would not be easy. As in any attempt to manage economic affairs, there will be inadequate information and data, sharp disagreements among the contending actors and difficulties in discerning the future. Mistakes are bound to be made. But there is really no alternative. Protectionism would be a disaster. Compensation for the victims of international trade is expensive and hasn't worked. And it doesn't appear that relying on educating the public to the concepts of free trade will enable the international trading system to stand up to the pressures it is presently being subjected to.

The concept of meaningful adjustment to import competition is the only practical way this country can respond to the pressures of the international trading system and contribute to the maintenance and expansion of that system. While our present

adjustment programs are far from ideal, we need to improve, not abandon them. We urge continuation of the adjustment assistance program for firms at present levels while we give continued study to their improvement.

STATEMENT OF DANIEL J. FENNELL, SECRETARY, INDUSTRIAL POLICY COUNCIL

Mr. FENNELL. My name is Daniel Fennell and I am appearing as secretary of the Industrial Policy Council. I am also director of the Mid-Atlantic Trade Adjustment Assistance Center, which is headquartered in Philadelphia, Pa., and covers five States in the mid-Atlantic region.

I came in here on a train that needed trade adjustment assistance and didn't get it, certainly not in a timely manner, and the result was very similar to what happens to firms when they don't get it in a timely manner: disaster. I was listening to the previous witness from the airlines. I think I will fly home. [Laughter.]

But Mr. Chairman, we appeared before you last year and we gave you a report of the unusual effectiveness, in my mind, of what had been happening in the trade adjustment assistance program for firms and industries, which you said was long overdue.

We described a small program working among 50,000 firms, 4 million people employed in those firms spread throughout the country in industry sectors affected by imports, and we pointed out that each State represented on the Ways and Means Committee had significant numbers of those firms and workers that were both candidates for assistance and had received assistance.

In our appearance before this committee in October of 1982 and in 131 pages of testimony for the record, we have described to you the nature and results of the trade adjustment technical assistance for firms and the unique research and development projects which have been sponsored by the industry portion of that program under chapter 3, title II of the Trade Act of 1974.

We did this then because we believed, as we still do, that the trade adjustment assistance program has been an essential instrument to the recovery prospects of many firms and that, moreover, the program deserves to be continued. We urge you today to continue this useful program and to extend the authorization of the Trade Act of 1974.

I agree with my distinguished colleague, Mr. Williams, that it is not a perfect program. It cannot be all things to all people, but it has been an unusual amount to a large variety of firms. We support the aims of the President's recovery program and we are distressed that after adopting trade adjustment assistance for firms and industries as an integral part of that program in its first budget year, the administration has now sought to eliminate it and has done so for the last 2 years.

Right now the proposal is to defer the funds from trade adjustment assistance for firms and industries and transfer them to SBA in order to meet the huge demands by banks for payoffs of defaulted loans guaranteed by that agency. The rationale that has been provided for this, the elimination of the program at this time, is very similar to what it was last year, that the Trade Act loan portfolio is poor and that few firms are being helped to compete.

In light of its concern, Mr. Chairman, for loan defaults, I would submit that it is ironic that the administration is now proposing to transform good Trade Act money, if I can call it that, into bad SBA loans.

Furthermore, we should reemphasize that there are now many fewer loans than there ever have been under the Trade Act in previous years, and by far the largest number of firms who received Trade Act assistance have not received Trade Act loans but have been able to reenter capital markets, although their ability to do that is dependent upon what those capital markets will charge.

My attachments document more than \$131 million in financing which has been obtained by firms working through the trade adjustment assistance program and through the trade adjustment assistance centers, which has not come through the Trade Act at all.

This amount of alternative financing doesn't even touch the much larger number of dollars which firms have been able to use because through the trade program they have been able to maintain lines of credit and factoring relationships which otherwise would have been foreclosed to them.

Several points regarding the loans, because it has been so heavily emphasized by the administration, are illustrated in a table that I have included in my prepared statement. In every year since 1979, both the number of firms assisted by loans and the total number of loan dollars has declined.

The loan activity since fiscal year 1982 has been negligible, accounting for 5.7 percent of the total loan dollars in the portfolio and 4.2 percent of the number of firms receiving loan assistance. Thus far in fiscal year 1983 there has been only one loan closed, for a total amount of under \$1 million.

What the table does not show are some things that we pointed out last year. One-third of that loan portfolio was closed before the trade centers became operative. The administration has not lost or the Government has not lost money on its Trade Act loan portfolio. The risk factor that has been built into the loan program was pre-eminent in the first several years of its operation, and that was that only firms who did not receive any other financing could receive financing under this program.

Furthermore, the credit criteria have been enormously tightened under the International Trade Administration as opposed to what was the case in the Economic Development Administration. Clearly, the amount of loan exposure, which the administration claims is the greatest concern, has been extraordinarily small in recent years, and the precipitous loan activity to which the administration alludes is really past history.

Still, we would suggest, because of some remarks that I quote in my prepared statement, that there may be a very real reason for having a loan feature to the program if properly administered. In counterpoint, however, to the 308 firms that have received loan assistance, there have been more than 2,200 firms that have received assistance overall.

Less than 14 percent have received loans, and since fiscal year 1981, less than 2 percent of the firms receiving assistance have received loans. Last year we entered case studies into the record demonstrating the kind of work that we have been doing for firms

but, more importantly, that firms have really been doing for themselves, and today we will have firms describe that to you.

I won't recite chapter and verse what those have been, although if the committee desires it, I would be happy to submit fresh examples from all over the country. The point, however, to which I would draw the Chair's attention is that nearly 85 percent of the firms who have received assistance are still operating, competing and employing people.

As you may know, many firms who have worked with us have not only maintained their employment but they have increased it, as well. The Xonics Corp. in Des Plaines, Ill., which was planning to be here with us today, had dropped 800 employees when it began working with the Mid-Western TAAC in March of 1980, and today, under the direction of Sid Kulick, its president, the company employs 1,300 people.

This manufacturer of medical imaging equipment is projecting sales for this year of \$130 million, up from a low of \$80 million only a few years ago. The company has received substantial amounts of technical assistance, and its performance and its adjustment plan have merited for it an approved application for a very heavily collateralized loan.

There is no other program in this country, Mr. Chairman, which is working for the Xonics of America in the way that the trade adjustment program is. The engineering, marketing and productivity studies, the management information systems work being accomplished for firms through this program is unique, and the industry side of the program is achieving results that are far beyond the dollars spent.

You should also be pleased that you have created a program that is not only helpful to industry but has been enormously cost effective. In their fourth year of operation with the TAAC's, 800 firms were worked with, having an estimated average employment of 150 people. For these 120,000 employees, the average cost per person of the technical assistance portion of the program was \$150, less than a week of unemployment compensation.

The per head cost using the entire program budget of \$27.5 million as the total outlay—and in fact it was much lower than that because the budget was underspent and portions of it were for contingency set asides not related to assistance to firms at all—the cost was \$229. There is not a jobs program in this country for a population anywhere near this size with costs that low.

As we pointed out last year, this program is not only a business-like approach to business problems and a working response to workers' problems, but whereas other worker programs assist those who have already lost their jobs, this program helps those who have jobs to keep them.

Just as notable, however, is a consideration of what the Government gets back for this outlay. Setting aside the readjustments which firms are able to accomplish and their attendant contributions to local and regional economies, the employees alone make a significant contribution to Federal tax dollars.

Conservatively estimating an average employee wage of only \$10,000 a year, these workers account for \$204 million a year in Federal taxes and unemployment insurance alone. In 1 year this

represents more than 7 times the fiscal year 1983 budget for the program, more than 10 times the face amount of all loans made by the program in calendar year 1982, and 60 percent of all loans made since the program began in 1975.

If you wish to discount the estimate by half, the amount still exceeds the total of 1982 loans plus the fiscal year 1983 program budget by a whopping 330 percent, and these estimates don't include corporate taxes, State or local taxes, or other employment related revenues, and nor are they compounded for successive yearly iterations.

We believe that for the number of firms that have been helped and workers assisted, the results achieved and the work still to be done, this has really not been a very costly proposition. Notwithstanding this, there is a good deal more to be done.

I mentioned, in opening the wide dispersion of affected firms in States throughout the country. In the early days of the program these firms were noticeably within smokestack industries, which some have described as dying and therefore forgettable. According to the National Planning Association, since 1979 the aggregate proportion of sales by U.S. firms in 10 industries has dropped from 79 percent to 51 percent.

What is most dramatic about this, however, this seemingly unsurprising shift, is that U.S. high technology firms suffered a greater decline than other U.S. firms. Now, at a time when the U.S. computer industry's leadership may be only as great as the development of the next silicon chip, the United States faces competitors who became positioned because their basic industries were able to compete and are continuing to do so.

It is now clear that preeminence in any field is a tenuous proposition, especially if there is no public private partnership which is involved in achieving or maintaining it. An example of this is the machine tool industry, which until 1977 was a net exporter of metal cutting and metal forming equipment. Because that equipment was believed to be the finest in the world, the precision and efficiency of its tools was considered to be one of the basic reasons for the industrial strength of the United States.

In 1977, however, imports overtook exports and by 1979 had captured 22 percent of the domestic market. As the recession has slowed the production and the capital equipment outlays among its customers, machine tools, which is a lagging industry in regard to plant capacity, has been retarded in its efforts to adjust.

I have included in my statement an estimate of job loss in just five industries, five selected industries, which in summary projects that 130,000 jobs from 1982 to 1984 will be lost in the five industries examined. This is primary metals, fabricated metals, machinery, besides electrical, electrical and electronic machinery, and measuring and controlling instruments.

What is interesting about this is that although there are numerous other sectors, such as footwear, apparel, textiles, handbags, handmade gloves, leather products, which have already experienced huge impacts from imports and will continue to do so, these are not included in the overview that adds up to the 130,000 job loss.

This kind of situation has led Industry Week to ask how long it will be before the computer industry and its high technology counterparts are in the same boat as machine tools, steel, autos, textiles, apparel, or any other number of U.S. industries. The machine tool industry and others like it need time for their adjustment. They need help.

A model for the kind of help that is possible is the trade adjustment assistant program for firms and industries which the president of the National Machine Tool Builders Association, Mr. James Gray, singled out in a recent editorial in National Metal Marketing called "Government Assistance Can Help the Machine Tool Industry Adjust."

Mr. Chairman, clearly we believe that the trade adjustment assistance program is an important instrument of national economic policy. Not only would it be folly to abandon it as it has developed so well and cost so little, but at this time in our national life, the program needs to be strengthened and even expanded.

Even without expansion, the present program can be improved by judicious amendment of the Trade Act of 1974. As your committee evaluates the provisions of that act in regard to trade adjustment assistance, we would like to be able to provide you with some recommendations for changes, and let me just mention a few of those here, but we would like to expand on those at a later time with you.

In relation to eligibility for assistance, the certification of eligibility for assistance for a firm is now limited to those who have already lost sales or production and employment. This is one of the reasons for earlier loan losses.

If one objective of adjustment assistance is to help firms and industries to compete in the emerging worldwide marketplace, then we should be able to work with companies in assaulted industries before they have suffered too great a decline for it to make any difference.

Similarly, we should be able to continue working with firms even though imports have not increased absolutely so long as imports continue to occupy a major portion of the market. Presently, for example, we cannot get mushroom firms certified, a very important component of Congressman Schulze's district. They cannot be eligible since mushroom imports have not absolutely increased over the last 2 years, although the industry is devastated.

Firms which have had major declines in sales of a critical product line, either in domestic or in export markets, should be eligible even though aggregate sales for the company may have improved. For example, a firm in Baltimore that we have recently sought to work with has had a precipitous decline in its original equipment manufacturer sales to the domestic auto industry.

This one-line item that they manufacture represents 30 percent of its aggregate sales and 100 percent of all of its original equipment manufacturing sales. However, overall sales have picked up slightly, yet at a time when domestic auto content legislation is being considered in the Congress, and for which there is a great feeling, we cannot help a domestic content manufacturer with respect to information about the program.

Section 264 requires the Secretary of Commerce to study the likely impact on domestic firms from import problems being investigated by the ITC under section 201. Section 264(a)(2) requires the Secretary to determine the extent to which orderly adjustment of firms to the import competition being assessed by the ITC can be facilitated through existing programs that can be responsive to these problems.

We have been restrained over the past year and a half from informing firms about the trade adjustment assistance program. Right now there is no mechanism that links the trade program to the ITC deliberations.

Section 264(c) requires that whenever the ITC makes an affirmative finding under 201(b) that increased imports are a substantial cause of serious injury or threat thereof with respect to that industry, the Secretary of Commerce is obligated to inform firms in such an industry about the programs that would facilitate positive adjustment to those kinds of assaults.

Right now there is a very, very limited amount of work that is being done, and I would submit to you that more active promotion of the program and its resources coordinating with other resources that are available through other programs would go a long way to enhancing it.

Mr. Chairman, I don't want to take up more of your time. I would like to express my own pleasure for appearing on this panel with three firms who have received trade adjustment assistance help and with a representative of a union who represents the hand-bag industry.

Last year, you may recall, Mr. Ed Levy appeared on behalf of the manufacturers' side of that, and this year they will speak to the workers' side.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF DANIEL J. FENNELL, SECRETARY, INDUSTRIAL POLICY COUNCIL,
DIRECTOR, MID-ATLANTIC TRADE ADJUSTMENT ASSISTANCE CENTER

Mr. Gibbons, Mr. Vander Jagt, Mr. Schultz, and members of the committee, my name is Daniel J. Fennell. I am appearing today as Secretary of the Industrial Policy Council and as Director of the Mid-Atlantic Trade Adjustment Assistance Center (TAAC), one of eleven such assistance centers which work with a large number of firms who have lost markets to imported products. Like the organizations which host other Trade Centers throughout the country, our parent organization, the Council for Labor and Industry, has specialized in business assistance and other economic development efforts. The Council includes on its board Presidents and officers of area colleges and universities, the President of the Pennsylvania-New Jersey-Delaware Chamber of Commerce, and the President of the Philadelphia Council, AFL-CIO.

Last year we appeared here and gave you a report on the unusual effectiveness of the Trade Adjustment Assistance Program for Firms and Industries which you said was long overdue. We described a small program working among the 50,000 firms and 4,000,000 employees spread throughout the country in industry sectors impacted by imports. We pointed out that each state represented on the Ways and Means Committee had substantial numbers of firms that were candidates for assistance. ~~Beth Michigan and Florida, for instance, have more than 1,000 affected firms whose workers would be on the unemployment lines if these firms went out of business.~~ In these two states alone there are more than 250,000 workers who would be affected. States like California, New York, Pennsylvania, Illinois, and Ohio have, by themselves, more than that number of affected workers—and even the lovely islands of Hawaii are not exempt from injurious competition from foreign goods.

In an appearance before this Subcommittee in February 1982 and in 130 pages of testimony for the record, we have described to you the nature and results of Trade Act technical assistance to firms and the unique research and development projects which have been sponsored by the industry assistance program under Chapter III, Title II of the Trade Act of 1974. We did this because we believed then, as we do now, that the Trade Program has been essential to the recovery prospects of many firms, and that, moreover, the program deserves to be continued on its merits.

We urge you today to continue this useful program and to extend the authorization of the Trade Act beyond September 1983.

We support the aims of the President's Economic Recovery Program. We believe that the Trade Program furthers these aims by assisting firms themselves to be more ably competitive in an increasingly worldwide marketplace. We are distressed that after adopting Trade Adjustment Assistance for Firms and Industries as an integral part of its economic program in its first budget year, the Administration has sought to eliminate it in the last two years. In the Budget Message of February 1, 1983, which was transmitted to the Congress by the President, it is proposed that expenditures of \$20,100,000 from fiscal year 1983 appropriations for the Trade Adjustment Assistance Program for Firms and Industries be deferred and, together with \$181,900,000 from the Economic Development Administration, be transferred to the Small Business Administration. The Administration is proposing deferral of these funds and their transfer to SBA in order to meet the huge demands by banks for pay-offs of defaulted business loans guaranteed by the SBA. The rationale that has been provided by the Administration for eliminating the Trade Program at this time is similar to the reasons given in the Administration's 1983 Budget Package: that the Trade Act loan portfolio is weak and few firms have been helped to compete. We have pointed out to the committee in the past that this rationale fails to take notice of the substantial positive results from technical assistance and from the industry projects. We have also pointed out, with respect to the loan program itself, that one-third of the loans in the Trade Adjustment portfolio were closed before the Trade Centers began operating; that a high risk was built into the loan program by reserving its use to those firms who could not obtain other financing; that new strengths have been built into the lending activities of the Program; that performance in the International Trade Administration, which has been operating the Program since September 1981, has been significantly better than in EDA; that despite the "poor" loan portfolio, the Trade Act loan program has not lost money; that the majority of the Trade Act appropriation is not for loans; and that most importantly, the Trade Act Program is not primarily a government financing program (although in its early years under EDA the Program was treated principally as a loan program) but is more properly an integrated recovery vehicle which ties assistance to systematic adjustment steps.

In light of its concern with loan defaults, it is ironic that the Administration is now proposing to transform "good" Trade Act money into "bad" SBA loans. Furthermore, we should reemphasize that loans under the Trade Act are now the smallest portion of the Program and by far the largest number of firms who have received Trade Act assistance have not received Trade Act loans but have been able to reenter commercial capital markets.

I have attached to this statement an illustration of alternative financing which firms assisted by the Program have been able to receive and I would like to emphasize that this does not include the results for all TAAC areas. In summary, the attachments show that approximately \$130,000,000 in financing has been obtained by firms working with the Trade Centers which has not come through the Trade Act. This amount of alternative financing does not include the much larger number of dollars which firms have been able to use because, through the Trade Program, they were able to maintain lines of credit and factoring relationships which would otherwise have been foreclosed to them.

It is also important to examine the recent experience and activity of Trade Act loans in the light of what has happened in previous years. Below I am including a table which displays the loans awarded to firms from the beginning of the Trade Program in 1975.

SUMMARY OF TRADE ACT LOANS THROUGH DEC. 31, 1982

(Dollar amounts in millions)

Fiscal year	Firms receiving loans	Guaranteed	Direct	Total loan
1978.....	97	\$43.345	\$62.339	\$105.684
1979.....	82	38.7	55.5	94.2
1980.....	67	30.0	42.0	72.0
1981.....	49	21.8	27.9	49.7
1982.....	12	16.7	2.5	19.2
1983 (through Dec. 31).....	1		.56	.56
Total.....	308	150.545	190.799	341.344

Several points regarding loans are clear from examining the table: in every year since fiscal year 1979, both the number of firms assisted by loans and the total loan dollars have declined; the loan activity since fiscal year 1982 has been negligible, accounting for 5.7 percent of the total loan dollars in the portfolio and 4.2 percent of the number of firms receiving loan assistance; thus far, in fiscal year 1983 there has been only one loan which has closed. Clearly, the amount of loan exposure in recent years is extraordinarily small and the precipitous loan activity to which the Administration alludes is past history.

In counterpoint to the 308 firms that have received loan assistance there have been more than 2200 firms who have received assistance under the Trade Program. Less than 14 percent of these have been involved in the loan feature of the Program and since fiscal year 1981, less than 2 percent of the firms receiving Trade Act assistance have received loans under that Program.

Last year we entered case studies into the record demonstrating the kind of work that we have been doing for firms and the kind of work which firms, being able to identify resources that will assist in their redirection, have been doing for themselves. The Trade Adjustment Assistance Centers stand by that record and have seen it extended since we last met with you here. I will not recite chapter and verse today, although if the Committee desires it, I would be happy to provide fresh examples from all areas of the country. The point to which I would draw your attention, however, is that nearly 85 percent of the firms who have received assistance are still operating, competing and employing people.

As you know, many firms which have worked with us have not only reversed their employment losses but have added workers, as well. The Xonics Corporation in Des Plaines, Illinois, had dropped to 800 employees when it began working with the Mid-West TAAC in March 1980. Today, under the direction of its President, Mr. Syd Kulick, (who was not able to join us here today) the company employs 1300 people. This manufacturer of medical imaging equipment is projecting sales for this year of \$130,000,000, up from a low of \$80,000,000 just a few years ago. The Company has received substantial amounts of technical assistance and based on its performance and Adjustment Plan, has had an application for a heavily collateralized loan approved.

There is no other program in the country which is working for the Xonics' of America in the way that the Trade Program is. The engineering, marketing and productivity studies, and management information systems work being accomplished for firms through this Program is unique. And the industry side of the Program is achieving results far beyond the dollars which are spent. Particularly impressive have been the model programs, developed by Northwestern University's Science and Technology Center, for assisting the U.S. Consumer Electronics Industry; the computer-aided pattern grading service bureau for the Footwear Industry, developed by the New Enterprise Institute—which will aid that industry in gaining productivity efficiency and help it to respond more readily to rapid changes in style; and the assistance projects which are under way or being conceived for the Sportswear Manufacturers, Machine Tool Builders, Textile Machinery Manufacturers, and even the Robotics Industry.

You should be pleased that you have created a program that is cost-effective. In their fourth year of operation TAAC's worked with 800 firms having an estimated average of 150 employees each. For these 120,000 employees, the average cost per person of the technical assistance portion of the Program was \$150—less than a week of unemployment compensation. The per-head cost, using the entire Program budget of \$27,500,000 as the total outlay (in fact, the budget was underspent and

portions of it were for contingency set-asides or not related to firm assistance at all) was \$229.00. There is not a jobs program in the country for a population anywhere near this size with costs that low. As we pointed out last year, this is not only a business like response to business problems and a working response to workers' problems, but whereas other worker programs assist those who have already lost their jobs, this Program helps workers who have jobs to keep them.

Just as notable, however, is a consideration of what the government gets back for the outlay. Setting aside the readjustments which firms are able to accomplish and their attendant contributions to local and regional economies, the employees alone make a significant contribution to the Federal tax base. Conservatively estimating an average annual wage of only \$10,000, these workers account for \$204,000,000 a year in Federal taxes and unemployment insurance. In one year alone this represents more than seven times the fiscal year 1983 budget for the Program, more than ten times the face amount of all loans made by the Program in calendar 1982, and 60 percent of all loans made between 1975 and 1982. If you wish to discount the tax estimate by half, the amount still exceeds the total of 1982 loans plus the fiscal year 1983 program budget by a whopping 330 percent. And these estimates do not include corporate taxes, state or local taxes or other employment-related revenues, nor do they include the compounding of these figures in successive yearly iterations.

We believe that for the number of firms and workers involved, the results achieved and the work still to be done that this has not been an expensive proposition. Notwithstanding this, a good deal more is necessary.

In opening I mentioned the wide dispersion of affected firms in states throughout the country. In the early days of the Program these firms were noticeably within "smoke-stack" industries which some have described as dying. That is no longer the case. Nor is exporting, by itself, a sufficient and credible answer to the job loss and domestic industry unsettlement which has been created by imports. Recent declines in U.S. exports have contributed substantially to our current recession. In 1981, U.S. net manufacturing exports—historically a strong-point of U.S. trade—fell a full \$7,000,000,000. In the first half of 1982, they dropped even further still, finishing with an actual deficit of more than \$4,000,000,000. Although the Congress has responded with the Export Trading Company Act, which the International Trade Administration has called the single most important trade legislation in years, the U.S. trade deficit will only be overcome if new initiatives and incentives are coupled with efforts to reposition those companies which can potentially produce for the export market.

This is not 1950 when U.S. Industry was preeminent among the world's machine tool builders, produced 47 percent of the world's raw steel, and dominated the auto market. Nor can the U.S. retain claim to undisputed leadership in technology and innovation.

Today America is competing on almost every front. It is by now an "old" story that we can no longer buy an American-made radio or black and white TV set in this country; that 40 percent of color TV's are imported; that one out of every four autos and one out of every seven apparel garments are foreign made; or that the U.S. share of world tire and steel production is steadily declining and firms in these traditional industries are going out of business.

According to the National Planning Association, since 1979 the aggregate proportion of sales by U.S. firms in ten industries dropped from 79 to 51 percent. What is most dramatic about this seemingly unsurprising shift is that U.S. high-technology firms suffered a greater decline than other U.S. firms.

Twenty years ago the U.S. outspent both Japan and West Germany, its two leading international competitors, nearly four to one in real dollars for plant and equipment per manufacturing employee. Today the U.S. trails both of these countries in percent of GNP for capital formation.

Now, at a time when the U.S. Computer Industry's leadership may be only as great as the development of the next silicon chip, the U.S. faces competitors who became positioned because they were able to stabilize their basic industries and are continuing to do so.

I have heard it said with some frequency that the service industry will take up our jobs slack, or that, in an updated version of the theory of comparative advantage, it is of little consequence if our basic industries constrict, atrophy, or die, because new high-technology industries will emerge to sustain the economy and maintain leadership in "knowledge" fields.

It is clear that preeminence in any field is a tenuous proposition—especially if there is no public/private partnership involved in achieving or in maintaining it.

The machine tool industry, for example, was until 1977, a net exporter of metal cutting and metal forming equipment, believed to be the finest in the world. The

precision and efficiency of its tools was considered one of the reasons for the industrial strength of the U.S. In 1977, however, imports overtook exports, and by 1979 had captured more than 22 percent of the U.S. market. As the recession slowed production and capital equipment outlays among its customers, machine tools, a "lagging industry; in regard to plant capacity, was retarded in its efforts to adjust.

Industry Week has asked how long it will be before the computer industry and its high-technology counterparts are in the same boat as machine tools, steel, auto, textiles, apparel, or any number of other U.S. industries.

The machine tool industry, and others like it need time for their adjustment. They also need help, and a model for the kind of help that is possible is the Trade Adjustment Assistance Program for Firms and Industries which the President of the National Machine Tool Builders Association, Mr. James A. Gray, singled out in a recent editorial in *National Metal Marketing*.

This is the Program which through technical assistance, helps firms to research their markets, find out what their customers are ready to buy and then to sell a product which is manufactured according to the latest technology and, sometimes, in new or refitted plants.

The loan feature of this Program has been heavily criticized and we have tried to contribute perspective on that issue. However, we should include a question now being asked by business leaders in an increasing number of forums.

"... if you can't borrow money because of today's interest rates—and if you can't raise equity capital because the return is too low—then how can you modernize your factories to improve your competitiveness during any breathing spell . . .", asks James A. Gray, in his *American Metal Marketing* editorial—"Perhaps you can't," he answers, "unless the government, because of the implications for our national security, takes the bull by the horns and makes capital available."

Another business leader, Mr. Malcolm Hopkins, Vice-Chairman, Chief Financial Officer and Director of St. Regis Paper Company, wrote in *Business Week's* October 25, 1982, issue that "Since the ability to finance on a long-term basis has all but vanished—perhaps forever—and rates have been too high to encourage extensive intermediate financing, companies are simply refusing to participate at all in capital markets. This means that basic industries have decided not to raise capital, not to expand, not to modernize, not to produce new products, not to provide new jobs."

Mr. Hopkins concluded that: "I think we must face up to the fact that a crisis demands extraordinary measures. As reluctant as U.S. corporate leadership is to have government intrude in the workings of the free market—and I share this reluctance—I think we must acknowledge the need for Washington to assist in the resuscitation of our basic industries. Unless there appears some magical substitute for the non-exist long-term financing market—and it better show up fast—do we have any choice but to give serious consideration to some sort of temporary government-supported safety net for long-term bonds for basic industries?"

Clearly, Mr. Chairman, we believe that Trade Adjustment Assistance is an important instrument of National Economic Policy. Not only would it be folly to abandon a program which has developed so well and cost so little, but at this time in our national life, the Program needs to be strengthened, even expanded.

I have enclosed with my statement a brief overview of projected employment changes due to imports within selected industry sectors. This is part of a preliminary summary of an examination of the most severely import-injured U.S. industry sectors, which is being conducted by Associated Research Analysis Corporation, a private consulting firm. The summary projects job losses of more than 130,000 from 1982-1984 in only five of the industries which were examined. Each of these five industry subsectors have firms or workers certified under the Trade Act or have had an increased import penetration ratio: Primary Metals; Fabricated Metals; Machinery, except Electrical; Electrical and Electronic Machinery; Measuring and Controlling Instruments.

Numerous other sectors such as Footwear, Apparel, Textiles, Handbags, Hand-made Gloves, and Leather Products—which have already experienced and will continue to experience huge impact from imports, are not included in this overview.

The figures on job loss and business decline are enough to spur extreme protectionist sentiments. We think that a "fair trade" and adjustment assistance response can be both credible and effective.

Even without expansion, the present Program can be improved by judicious amendment of the Trade Act of 1974. As your committee evaluates the provisions and purposes of The Act in regard to Trade Adjustment Assistance, we would like to provide you with some recommendations for change.

Here, I would like to mention several areas for changes:

I. ELIGIBILITY FOR ASSISTANCE

(a) Certification of Eligibility for Assistance is now limited to firms who have already lost sales or production and employment. This is one of the reasons for earlier loan losses. If one objective of Adjustment Assistance is to help firms and industries to compete in the worldwide marketplace, then we should be able to work with companies in "assaulted industries" before they have suffered too great a decline.

(b) Similarly, we should be able to continue working with firms even though imports have not increased absolutely, as long as imports continue to occupy a major portion of the market. Presently, for example, we cannot get mushroom firms certified for eligibility since mushroom imports have not absolutely increased in the last two years—although the industry is devastated.

(c) Firms which have had a major decline in sales of a critical product line—in either domestic or export sales—should be eligible, even though aggregate sales for the company may have improved. For example, a firm in Baltimore has had a precipitous decline in its OEM (Original Equipment Manufacturer) sales to domestic auto manufacturers. This one item represents 30 percent of its aggregate sales and 100 percent of all OEM sales. However, overall sales have picked up slightly. Yet, at a time when domestic auto content legislation is being considered in the Congress, we cannot help a domestic content manufacturer.

II. LINKAGE TO THE SBA

(a) Under Section 256, consideration should be given to reversing the Secretary of Commerce's power to delegate all functions except certification to the SBA; so that the SBA could be delegated as a referral agent or even a certification agent from which the Trade Program would gain participating firms. SBA should not be delegated technical or financial assistance functions under the Trade Act.

III. INFORMATION ABOUT AND PROMOTION OF THE PROGRAM

(a) Section 264 requires the Secretary of Commerce to study the likely impact on domestic firms from import problems being investigated by the ITC under Section 201. Section 264(A)(2) requires the Secretary to determine the extent to which orderly adjustment of firms to the import competition being assessed by the ITC can be facilitated through existing programs that can be responsive to these problems. Right now there is no mechanism which links the trade program to the ITC. Section 264C requires that whenever the ITC makes an affirmative finding under Section 201B that increased imports are a substantial cause of serious injury or threat thereof with respect to that industry, the Secretary of Commerce is obligated to inform firms in such an industry about which programs facilitate the orderly adjustment to import competition, as well as who provides assistance to such firms.

A more active promotion of the Program, coordinating it with other resources would enhance it.

Thank you, Mr. Chairman—I appreciate your interest and urge your support.

PROJECTED CHANGE IN EMPLOYMENT 1982-84 WITHIN 5 INDUSTRY SECTORS

(Dollar amounts in millions)

SIC and description	Value of imports year ending 2d quarter 1982	Percent change in imports year ending 2d quarter 1980 to year ending 2d quarter 1982	Projected change in employment year ending 2d quarter 1982 to year ending 2d quarter 1984	
			Jobs lost	Jobs gained
33—Primary metals industries.....	\$19,400	12.5	102,700	6,000
34—Fabricated metal products.....	5,004	18.6	91,000	6,700
35—Nonelectrical machinery.....	16,964	19.0	121,300	115,400
36—Electrical and electronic machinery.....	18,376	37.4	108,100	116,200
38—Measuring and controlling instruments.....	5,526	29.8	8,400	55,700
Total.....	65,270	22.3	431,600	300,000
Net jobs lost.....			131,600	

MAJOR FINDINGS

Of 113 sub-sectors analyzed, 87 had employment declines from 1980-1982 totalling 907,300 jobs; and 72 sub-sectors are projected to have additional employment losses totalling 431,000 jobs by 1984.

Of 17 sub-sectors analyzed within the Primary Metals Industry, 13 sub-sectors are projected to have a 102,700 job loss by 1984.

Of 22 sub-sectors analyzed within the Fabricated Metals Industry, 17 sub-sectors are projected to have a 91,000 job loss by 1984.

Of the 32 sub-sectors analyzed within the Non-Electrical Machinery Industry, 19 sub-sectors are projected to have a 121,300 job loss by 1984.

Of 31 sub-sectors analyzed within the Electrical and Electronic Industry, 20 sub-sectors are projected to have a 108,100 job loss by 1984.

Of 11 sub-sectors analyzed within the Measuring and Controlling Instruments Industry, 3 sub-sectors are projected to have a 8,400 job loss by 1984.

Twenty-six of the 113 sub-sectors analyzed are projected to have a 300,000 job gain by 1984. This offsets the 431,600 projected job loss, and results in a 131,600 net job loss for all 113 sub-sectors.

EMPLOYMENT PROJECTIONS

Employment projections for this overview are based on an analysis of the level of employment trends for the 1976-1982 period.

Employment projections presented do not take into account a number of other variables that have an effect on employment, including domestic economic conditions.

The employment impact identified in the overview focuses on one of several factors effecting employment.

The overview provides an indication of the magnitude of the potential aggregate employment impact in these industry sectors.

TAAC/Director	Area Covered/Cooperator Organization	TAAC/Director	Area Covered/Cooperator Organization
New England TAAC 650 Statler Office Building Boston, MA 02116	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont (New England Trade Adjustment Assistance Center, Inc.)	Mid-West TAAC 130 North Vacker Drive Chicago, IL 60606	Illinois, Minnesota, Iowa, Wisconsin (Applied Strategies Inter'l-ASI)
Blanche Greenhill (phone: 617-542-2395)		Howard Yefsky (phone: 312-368-1600)	
New York State TAAC 4500 Old Vostal Road Binghaston, NY 13903	New York State (excluding New York and Long Island)	Rocky Mountain TAAC 3505 Austin Bluffs PKWY Ft. 310 Colorado Springs, CO 80907	Colorado, Nebraska, Wyoming, New Mexico, North Dakota, South Dakota (University of Colorado)
John Lacey (phone: 607-729-2201)	(State University of New York/BUNY Public Service & External Affairs)	William Scott (phone: 303-394-9449)	
Ketro New York TAAC 17 John Street, Suite 500 New York, NY 10038	New York City & Long Island, N.Y.;	Mid-America TAAC University of Arkansas Ind. Research & Exten. Center P.O. Box 3017 Little Rock, AR 72203	Arkansas, Kansas, Louisiana Missouri, Oklahoma, Texas (University of Arkansas, Industrial Research & Extension Center)
Paul Radow (phone: 212-964-1213)	(Institute of Public Administration)	John Onitz (phone: 501-371-1737)	
New Jersey TAAC CN 990, 200 So. Warren St. Trenton, NJ 08625	New Jersey (New Jersey Economic Development Authority)	Northwest TAAC 1218 Third Ave., Rm. 618 Seattle Tower 98101 Seattle, WA 98101	Alaska, Idaho, Montana, Oregon, Washington (Economic Development Council of Puget Sound)
John Walsh (phone: 609-292-0360)		F.J. (Mac) McLaughlin (phone: 206-622-2730)	
Mid-Atlantic TAAC One East Penn Square Suite 1412 Philadelphia, PA 19107	Pennsylvania, Delaware, Maryland, Virginia, West Virginia, Wash., D.C. (Council for Labor & Industry)	Western TAAC University of So. California 3716 So. Hope Research Annex-2nd Floor University Park Los Angeles, CA 90007	Arizona, California, Hawaii, Nevada, Utah (University of Southern California) Teddy Johnson (phone: 213-743-8427)
Southeastern TAAC Engineering Experiment Stat. Georgia Institute of Tech. Atlanta, GA 30332	Alabama, Florida, Georgia, Kentucky, Tennessee, Mississippi, North Carolina South Carolina (Georgia Tech Research Institute, Georgia Institute of Tech.)	Great Lakes TAAC University of Michigan Institute of Science & Tech. 2200 Bonisteel Blvd. Rm. 5105 Ann Arbor, MI 48109	Michigan, Ohio, Indiana, Mr. Marian Krzyzowski (phone: 313-763-9000)
Harry Taylor (phone: 404-896-3858)			
Puerto Rico TAAC Eusebio de Ponce Suite 1102 Hato Rey, PR 00918	Puerto Rico (Institute of Public Administration) Rene Velasquez (phone: 809-753-6320)		

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2/15/83

SUMMARY OF TRADE ADJUSTMENT TECHNICAL ASSISTANCE BY STATE

State	FY - 79 & FY - 80		FY - 81		FY - 82		FY - 83 (est.)		Total		No. of Firms still in business (1/31/83)
	No. of Firms	\$ Gov. Share	No. of Firms	\$ Gov. Share	No. of Firms	\$ Gov. Share	No. of Firms	\$ Gov. Share	No. of Firms *	\$ Gov. Share	
Connecticut	23	45,939	16	36,881	11	73,832	23	155,586	65	312,253	59
Maine	13	5,048	10	4,676	7	32,669	10	129,217	28	171,610	28
Massachusetts	98	44,216	56	73,804	47	141,647	102	664,203	247	923,870	233
New Hampshire	20	28,022	29	49,385	16	353,009	11	80,280	53	510,696	47
Rhode Island	11	12,139	13	20,363	5	8,838	12	108,380	33	149,720	33
Vermont	2	1,573	3	9,044	6	22,790	11	154,759	15	180,066	14
New York	185	476,198	77	299,429	103	800,023	36	427,179	197	1,892,829	180
New Jersey	42	97,818	54	233,423	54	219,098	31	137,841	63	688,180	45
Pennsylvania	123	190,000	99	510,300	69	265,000	48	582,000	180	1,547,300	159
West Virginia	24	56,350	5	37,100	3	5,000	4	25,000	26	123,450	15
Maryland	20	20,000	12	21,700	13	23,300	10	90,000	49	155,000	45
Virginia	11	26,500	12	19,000	4	24,400	6	16,700	22	86,600	21
Delaware	-	-	1	100	1	300	2	3,000	4	3,400	4
Mississippi	12	13,135	9	25,335	8	15,284	11	55,580	36	109,335	25
Georgia	28	14,041	30	72,404	34	163,505	19	92,530	83	342,480	68
South Carolina	12	5,663	16	69,234	11	12,438	15	74,554	44	161,910	32
Florida	28	62,239	16	53,999	31	165,496	20	148,111	72	429,845	54

SUMMARY OF TRADE ADJUSTMENT TECHNICAL ASSISTANCE BY STATE

State	FY - 79 & FY - 80		FY - 81		FY - 82		FY - 83 (est.)		Total	
	No. of Firms	\$ Gov. Share	No. of Firms	\$ Gov. Share	No. of Firms	\$ Gov. Share	No. of Firms	\$ Gov. Share	No. of Firms	\$ Gov. Share
Oklahoma	5	28,100	5	22,700	2	4,100	2	7,000	8	61,900
Texas	13	25,200	16	76,400	24	58,500	14	45,000	51	205,100
Kansas	3	2,500	2	1,100	5	12,000	2	15,000	7	30,600
Colorado	5	36,000	7	53,000	8	16,000	1	25	12	105,000
New Mexico	3	9,000	2	2,300	3	9,500	2	3,000	6	23,800
Wyoming	0	0	2	4,700	1	217	0	0	2	4,917
California	76	997,173	52	666,346	46	599,983	60	600,000	206	2,881,777
Nevada	0	0	2	10,000	3	10,879	4	80,000	6	62,876
Utah	1	10,000	2	5,454	2	20,323	5	100,000	1	135,777
Hawaii	1	15,000	3	13,962	8	57,310	11	110,000	19	196,047
Arizona	2	20,000	3	10,175	2	10,660	4	40,000	8	75,835
Montana	4	16,000	1	20,000	10	44,818	19	109,515	20	190,333
Oregon	10	57,500	13	38,000	22	69,309	32	389,000	46	553,809
Alaska	0	0	0	0	1	788	8	97,000	7	97,788
Washington	48	225,000	27	128,000	45	307,773	30	365,000	105	1,025,778
Idaho	0	0	1	7,000	3	18,890	16	195,000	16	220,890
Total	967	\$3,267,665	733	\$3,758,219	754	\$4,805,107	772	\$7,046,487	2,240	\$18,741,766
										1,877

* Each firm counted only once

Summary of Alternative Financing Generated as a Result of Assistance from the Trade Adjustment Assistance Centers (TAAC)

TAAC	FY-79 and FY-80		FY-81		FY-82		FY-83 (as of 1/31/83)		Total	
	Number of Firms	Amount	Number of Firms	Amount	Number of Firms	Amount	Number of Firms	Amount	Number of Firms	Amount
New York State	-0-	\$ -0-	1	\$ 60,000	6	\$ 3,800,000	1	\$ 1,000,000	8	\$ 4,860,000
Mid-America	1	2,000,000	-0-	-0-	2	2,400,000	-0-	-0-	3	4,400,000
New England	6	4,565,000	15	35,900,000	20	30,680,000	-0-	-0-	41	71,145,000
Western	9	2,796,000	5	2,800,000	1	100,000	1	20,000	10	5,716,000
Northwest	1	4,000,000	8	4,840,000	2	100,000	2	600,000	13	9,540,000
Southeastern	1	1,500,000	5	795,000	1	15,000	-0-	-0-	7	2,310,000
Mid-Atlantic	3	349,000	11	4,082,000	1	250,000	1	500,000	16	5,181,000
Rocky Mountain	N/A	N/A	N/A	N/A	-0-	-0-	-0-	-0-	-0-	-0-
Metro New York	13	3,780,000	14	6,990,000	17	8,240,000	4	1,990,000	21	21,000,000
New Jersey	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Mid-West	-0-	-0-	1	1,000,000	2	535,000	1	2,700,000	4	4,235,000
TOTAL	34	\$18,990,000	60	\$56,467,000	52	\$46,120,000	10	\$6,810,000	123	\$128,387,000

*Each firm counted only once

**STATEMENT OF ISAAC ROSSARIO, CORPORATE TREASURER,
LEATHERGOODS, HANDBAGS, PLASTIC & NOVELTY WORKERS
UNION, LOCAL 1, AFL-CIO, ON BEHALF OF DOMENIC DIPAOLOA**

Mr. ROSSARIO. Mr. Chairman, I am Isaac Rossario, I am corporate treasurer of the Leathergoods, Handbags, Plastics & Novelty Workers Union, Local 1, AFL-CIO. I am here on behalf of Mr. Domenic DiPaola, managing director, who is, at this time, negotiating contracts and he could not be here. He asked me to read his testimony.

Mr. Chairman, members of the subcommittee, my name is Domenic DiPaola, managing director of the Leathergoods, Handbags, Plastics & Novelty Workers Union, Local 1, AFL-CIO. I am appearing here on behalf of the union membership and with the full support of my executive committee, which consists of men and women who represent a complete cross section of our handbags industry, an industry that includes many products such as reptiles, leather, vinyl, fabric, metal bindings, zippers, thread and glue.

Some 200 American manufacturers have labor contracts with our union. Our union contracts are with firms located from Rhode Island to Florida and Puerto Rico, and from New York to California; from the largest manufacturers doing over \$50 million per year to shops doing less than \$250,000 per year.

Ten years ago, there were approximately 750 establishments producing handbags in the United States; today, there are approximately 400, a decline of almost 50 percent. Total employment is now estimated to be less than 20,000. Our international union membership dropped 44 percent from 18,000 to 10,000 in that same period of time.

The decline in U.S. handbag shipments, the decline in the U.S. handbag producers and the decline in U.S. handbag workers can only be attributed to the dramatic increase in handbag imports. Imports have gone from 40 million units in 1967 to an estimated 180 million units in 1982; a 455-percent increase. During that period of time, imports as a percentage of the domestic market has increased from 29 percent to 83 percent, and if 83 percent of the products come from overseas, 83 percent of the jobs have gone overseas.

When I started as a pocketbook framer almost 40 years ago, most of the workers in the handbag industry were either of Italian or Jewish descent. With the upward mobility of minorities, most of our workers are now either blacks or Hispanics. They, too, need the opportunity to advance.

The American handbags industry and its workers are down but not out. There might not be an American handbags industry today if it were not for the trade adjustment assistance program. In the Metropolitan New York area, 21 handbag producing firms received financial assistance, preserving and creating thousands of jobs. More important, hundreds of firms have received technical assistance in the form of marketing, management, finance and production assistance to help them adjust to increasing import competition.

In addition, these handbag firms have been able to maintain their credit and have obtained additional private financing that would not have been provided if it were not for the Metropolitan New York Trade Adjustment Assistance Center.

After EDA determined that imports were severely impacting the handbag industry, the National Handbag Associations, in conjunction with the Leathergoods, Handbag, Plastics & Novelty Workers Union, Local 1, AFL-CIO received a U.S. Department of Commerce grant to fund an industrywide recovery program. This grant was supplemented by cash and in kind contribution from both the industry and the union. This recovery program aimed at five specific goals.

One, increased efficiency and productivity of the domestic industry through the design of a cost/price accounting system, provide a how-to manual distributed to all members of the industry.

Two, improvement of the product and design forecasting capabilities through the organization of a fashion oriented education program.

Three, development of a strategic marketing approach through an extensive market study on consumer and buyer attitudes, including test marketing, was performed throughout the United States and made available to all American manufacturers.

Four, the development of a comprehensive export manual which has significantly contributed to a 40-percent rise in handbag exports in the last 4 years.

Five, the last, but surely not the least, important accomplishment was the establishment of a technical school in New York to train young, talented people to design and make handbags. Only the influx of the young people with new ideas and concepts can make our industry prosper.

Largely due to the success of this industry wide recovery program, there is excitement and hope in the air. Hope for the industry and hope for its workers. But this hope continues to depend on the Trade Act of 1974. Our firms and the industry need the cooperation of Government. We need infusions of technical know how to secure and broaden our ability to compete with imports.

Support by this subcommittee to continue the Trade Act program is essential for the survival of this 100-year-old industry. Union Local 1, of which I am proud to be associated as its managing director, is the second oldest labor union in the United States. We are 98 years young. We are asking you to help the industry help itself. Only through cooperative effort between labor, management and government can this industry turn itself around and provide, preserve and create meaningful, long-term jobs for Americans.

The benefits received by the handbag industry through the Trade Act of 1974 are largely responsible for its survival in the United States and for the survival of its workers. The Trade Act of 1974 has given us hope. It has afforded the industry an opportunity to improve its competitive position through research and practical application of technical assistance. I believe a foundation has been carved out for the American handbag industry. We cannot let this momentum die. There would not be an American handbag industry today if it were not for the Trade Act of 1974.

Over 90 percent of the workers in this industry are minorities. They plead for your support, for the continuation and expansion of the Trade Adjustment Assistance program for firms and industries because the Trade Act works.

The Trade Act of 1974 works. It works for industries and firms. The Trade Act requires that firms look after the best interests of the employees, and it works for the employees. Let's look again at the facts. In the past 15 years, handbag imports have increased, due to our free trade policy, 455 percent.

During that same period of time during which imports have garnered 83 percent of the U.S. market, approximately 50 percent of our handbag factories and approximately 50 percent of our handbag work force has been eliminated. Although the American free trade policy has taken away a goodly piece of our business, the Trade Act of 1974 for industries and firms as administered by the International Trade Association has now stabilized the surviving handbag industry. It has assisted them to diversify, find new markets and a niche where import competition will have little or no effect upon it. It has helped the firms become more efficient and, therefore, helped many firms create additional working capital within. The Trade Act of 1974 works.

Our workers totally support the continuation and expansion of the trade adjustment assistance program for industries and firms. This program for industries and firms looks after the best interests of the American workers. The American worker does not want a handout; it only wants a hand.

And, Mr. Chairman, you have to excuse me. I was a little nervous, and this is the first time that I have appeared before a committee like this, so please excuse me.

Chairman GIBBONS. You did real fine.

Mr. Ledbetter.

STATEMENT OF ROBERT B. LEDBETTER, JR., VICE PRESIDENT, FINANCE, FORMATIVE PRODUCTS CO.

Mr. LEDBETTER. Mr. Chairman, my name is Robert Ledbetter, I am vice president, finance, of Formative Products. Since you have my testimony in full, I will be general in an outline form.

Chairman GIBBONS. All right, I would appreciate that.

Mr. LEDBETTER. A little background on Formative Products. We were founded in Michigan in 1955, and we manufacture die molds, welding and assembly fixtures, jigs, gages, molds, and special machines. Since 1977, we have had a unique process to form nickel tools and parts by chemical vapor deposition.

In the 1980's, 1980 exactly, Formative Products was primarily oriented to attract business from the automobile industry. Sales from that year ending June 30 were \$8 million, down 19 percent, and employees numbered 116, down 38 percent. A major factor in our decline was increased competition from companies located in Canada.

In the fall of 1980, Formative was certified to be eligible for trade adjustment assistance. In response to our need, the Midwest Trade Adjustment Assistance Center performed a diagnostic analysis and issued an adjustment plan in April of 1981. The diagnostic analysis outlined several problem areas. The adjustment plan showed Formative which areas it should use to become a viable company. It gave them new markets where it should expand its services, it

evaluated its manufacturing capability, and it suggested several financial alternatives.

The marketing study was perhaps the most important document that helped Formative recover. The marketing study evaluated several industries, identified the market's size and Formative's potential in that market, and identified the competition. It identified the requirements to enter the market and it identified key contacts at several companies in each market.

In summary, Trade Act assistance responded over a 2-year period with three valuable documents; a diagnostic analysis of the firm, an adjustment plan and a marketing study. As each of the documents was issued, Formative was able to follow a majority of the recommendations. A major factor in Formative's ability to implement successfully was ongoing assistance provided by the Midwest Trade Adjustment Assistance Center.

With the help of Trade Act assistance, Formative Products has diversified, has improved its financial strength and has been able to compete with imports in the old markets. Examples of their improvement are sales have increased to \$10,715,000 for the fiscal year ending 1982; up 32 percent. Employment has increased to 138; up 18 percent.

Increased marketing and improved efficiency of its chemical vapor deposition process. After 3 years in which sales were \$150,000 each year, sales in this division for fiscal year ending June 30, 1983, are expected to be greater than \$1 million. During the first 9 months of fiscal year 1983, automotive-related sales are expected to be 78 percent of the total sales; down from 95 percent in fiscal year 1980.

The company has become a leader in manufacturing high technological machines, many of which contain robotics or flexible automation concepts. Examples of this include computerized gaging and checking fixtures, computerized balancing equipment and automatic transfer equipment.

Finally, Formative has modernized its facility to include a computer aided multiaxis machining center.

Trade adjustment assistance is a valuable program. The key to this program is that it provides technical assistance as well as financial assistance. If Formative Products and similar companies were to try to get such assistance on the open market, the cost would be extremely prohibitive. However, as a result of trade adjustment assistance, Formative was able to recover from damage by foreign competition, save jobs and fight back. Trade adjustment assistance works.

[The prepared statement follows:]

STATEMENT OF ROBERT B. LEDBETTER, JR., VICE PRESIDENT, FINANCE, FORMATIVE PRODUCTS CO.

BACKGROUND

Formative Products, founded in the State of Michigan in 1955, manufactures die molds, welding and assembly fixtures, jigs, gages, molds and special machines. In addition, Formative has a unique process to form nickel tools and parts by chemical vapor deposition.

In 1980, Formative Products was primarily oriented to attract business from the automobile industry. Sales for the year ended June 30, 1980, were \$8,106,000, down

19 percent, and employees numbered 116, down 38 percent. A major factor in Formative's decline was increased competition from companies located in Canada. In the fall of 1980, Formative Products was certified to be eligible for Trade Act Assistance.

TRADE ACT ASSISTANCE PROGRAM RESPONSE

In November of 1980, technical assistance was initiated through the Midwest Trade Adjustment Assistance Center. A diagnostic analysis and an adjustment plan were issued in April of 1981.

The diagnostic analysis outlined the following problems:

(A) An increase in competition from Canadian companies who pay lower wage rates, receive sizable government subsidies for exports and have a favorable monetary exchange.

(B) Capital expenditures for new tooling programs in the automobile industry were put on hold, or cancelled as each flow tightened.

(C) Lack of, or poor procedures for, job cost estimation, job cost and analysis, marketing analysis and job quotation review.

The adjustment plan emphasized that Formative must expand its services beyond the automotive market. The plan also suggested that Formative improve its manufacturing capability. Special recommendations included:

Marketing

(A) Perform a marketing study to investigate opportunities in the business machine, appliance, furniture, housewares, defense and commercial aerospace markets.

(B) Hire a sales manager to supervise entry into new markets and to maintain existing markets.

(C) Develop a sales analysis/marketing research capability to identify unprofitable ventures and to add those of genuine promise.

(D) Organize a promotional/advertising program that is cost effective, successful, and has a built-in follow-through procedure.

Manufacturing

(A) Establish an engineering department.

(B) Formalize the estimating procedure.

(C) Update equipment to increase technological capacity.

Financial

(A) Review quotations as to profit potential and downside risk.

(B) Approve change orders, amendments, revisions and insure that all additional costs are recognized and invoiced.

(C) Improve the leveraged position of the firm.

In addition to the recommendations just outlined, the adjustment plan evaluated the organizational structure, identified strengths and weaknesses and made recommendations for improvement.

After reviewing the diagnostic analysis and adjustment plan, Formative implemented several of the recommendations and set a timetable for several of the others.

Also, Formative retained the Midwest Trade Adjustment Assistance Center to do a market study.

The market study:

(A) Evaluated the defense, agricultural equipment, commercial aircraft, computing and office equipment markets and several others.

(B) Identified competition.

(C) Defined the size of each market and estimated the potential market share for Formative.

(D) Identified market entry requirements.

(E) Identified key contacts at several companies in each market.

In summary, the Trade Act Assistance Program responded over a two year period with three valuable documents; a diagnostic analysis, an adjustment plan and a market study.

IMPLEMENTATION

As each of the documents were issued, Formative was able to follow a majority of the recommendations. A major factor in Formative's ability to implement successfully was the ongoing assistance provided by the Midwest Trade Adjustment Assistance Center.

RESULTS

With the help of Trade Act Assistance, Formative Products has diversified, has improved its financial strength and has been able to compete with imports in its old markets. Examples of Formative's improvements are:

(A) Sales have increased to \$10,715,000 for fiscal year 1982, up 32 percent.

(B) Employment has increased to 138, up 18 percent.

(C) Increased marketing and improved efficiency of its chemical vapor deposition process. After 3 years in which sales were \$150,000 each year, sales in this division are expected to be greater than \$1 million in fiscal year 1983.

(D) During the first 9 months of fiscal year 1983, automotive related sales are expected to be 78 percent of sales, down from 95 percent in fiscal year 1980.

(E) The company has become a leader in manufacturing high technological machines, many of which contain robotics or flexible automation concepts. Examples of this include computerized gaging and checking fixtures, computerized balancing equipment and automatic transfer equipment.

(F) Finally, Formative has modernized its facility to include a computer aided multiaxis machining center.

ANALYSIS

Trade Adjustment Assistance is a valuable program. The key to this program is that it provides technical assistance as well as financial assistance. If Formative Products and similar companies were to try to get such assistance on the open market, the costs would be extremely prohibitive. However, as a result of Trade Adjustment Assistance, Formative was able to recover from damage by foreign competition, save jobs and fight back. Trade Adjustment Assistance works.

Chairman GIBBONS. Very impressive. Mr. DuMars?

**STATEMENT OF MARK W. DUMARS, BOARD CHAIRMAN AND
PRESIDENT OF TACTEC SYSTEMS, INC.**

Mr. DuMARS. My name is Mark DuMars. I am with a company called Tactec Systems.

Chairman GIBBONS. Yes, sir, we have your statement here. If you want to summarize it, it will all be in the record.

Mr. DuMARS. Yes, sir, I would be happy to summarize it. Let me first provide a very brief description of the company. We acquired RCA's land mobile radio industry in March 1981, and we are doing about \$45 million a year in an industry that is growing at about 15 percent a year.

The companies that dominate this industry are GE and Motorola. In the last 3 or 4 years, a lot of companies from the Far East have introduced products into the industry and have encroached on the market share of the U.S. companies.

In our first year of operations our sales approximated \$45 million, and we were reasonably profitable. However, with the problems in the current economy we have had to reduce our employment from about 900 at our inception 2 years ago to about 600 today. We expect to report a loss in the current fiscal year.

There have been a number of factors that have impacted on the company adversely. I will not repeat them all, but they are rather painful. But I did not want to convey the impression to you, Mr. Chairman, that it is only foreign imports that is causing the problems for U.S. industry and, particularly, Tactec.

We have a number of problems to deal with, but certainly, foreign imports are a part of the problem. I would estimate that of the loss of employment, if we had not had the problem with foreign imports, the reduction in our employee force would have been probably cut in half.

Sometime ago, we became aware of this program with TAAC and met with our representatives and it became clear to them that we had a good case. The various forms were filed and through considerable assistance with their representatives we were able to become certified and worked with them in the proposal process.

Since that time, we have, through their organization, engaged a consultant to review with us our new marketing strategies. Through a careful series of initiatives such as joint venture arrangements and other such aspects of our onward plan, we have put ourselves in a position where we are at the forefront of the new technology in this industry.

But that is only if we can capitalize on the new products that we have established for the marketplace in 1983. The key will be our marketing. We have, therefore, hired a consultant to assist us with our marketing.

There are a number of other projects that from our earlier list of our weaknesses we could also use help on, but the key at this point is marketing. That project is underway.

I would like to point out that we have a company in a turn-around situation. A very rough time to have to turn around an operation that RCA had decided to close down some years ago. When I looked at the expenditure of funds that will be made on our behalf by TAAC from a marketing approach, I tried to justify it as a taxpayer, and I would do so as follows:

I think our company's survival is very important in maintaining existing jobs in an area in western Pennsylvania that is substantially depressed. I think it helps us reduce the encroachment by the Japanese and others into a very important new market for the United States. I believe that the combination of radio electronics and microprocessors puts us as a high tech company. Throughout this country and certainly western Pennsylvania, there is a lot of emphasis on high tech, and we should not allow a company like us to be harmed by foreign imports anymore than is necessary.

In our industry, there is a monopoly of a sort, and we need at least three or four companies in telecommunications to keep the big guy honest, and I think we serve as that counterweight. And last but not least, we do export, and I certainly think that is helpful to our Nation in terms of balance of payments.

I thank you for allowing us this opportunity to present this presentation and would be happy at the end here to answer any questions you might have, sir.

[The prepared statement follows:]

STATEMENT OF MARK W. DUMARS, BOARD CHAIRMAN AND PRESIDENT OF TACTEC SYSTEMS, INC.

I very much appreciate this opportunity to express the opinion of TACTEC Systems, Inc. concerning the activities of the Trade Adjustment Assistance Council (TAAC). We have been involved with TAAC for a number of months and believe that TACTEC's experience with the activities of TAAC should be helpful to this subcommittee in its evaluation of the TAAC Program.

This report has been divided into four sections:

- I. A brief background on TACTEC and the industry in which it operates.
- II. Factors having a negative effect on TACTEC's viability
- III. The involvement of TACTEC with TAAC
- IV. The importance of TAAC assistance to TACTEC

I. BACKGROUND ON TACTEC

TACTEC Systems, Inc. was incorporated in January 1981 and acquired the land mobile radio operations of RCA Corporation in March 1981. RCA had reported a history of unprofitable operations and had expressed its intention to close down its land mobile radio operations.

The land mobile radio industry consists primarily of two-way, dispatch type radio service. Users of two-way radios include agencies of Federal, State and Local governments, public utilities and companies in a variety of industries which require prompt communication capabilities in order to maximize operating efficiencies. The price range for such radios, including both mobile (installed in vehicles) and portables (hand-held), is approximately \$600 to \$2,200. The U.S. market is estimated at approximately \$1,500,000 and the International market at \$2,500,000, with a projected annual growth of about 15 percent. The high-priced end of the U.S. marketplace is dominated by Motorola and GE, with approximately 20 companies active in the low-end of the U.S. marketplace, including a number of non-U.S. companies.

TACTEC's annual revenues for its fiscal year ending February 28, 1983 will approximate \$45,000,000. The Company employs about 600 individuals, a decline from about 900 employees at the time the RCA operations were acquired. The Company was profitable in its initial fiscal year, but is expecting to incur a loss in the current fiscal year as a result of a significant decline in sales during this recessionary period.

II. FACTORS NEGATIVELY AFFECTING THE VIABILITY OF THE COMPANY

The owners of TACTEC Systems, consisting of ten private investors (all US citizens) acquired an unprofitable division of a large conglomerate. It was immediately apparent that the Company's weaknesses were significantly greater than that which had been anticipated during the acquisition proceedings. Specifically, the land mobile radio operations of RCA suffered from (a) weak management, (b) an aged product line that had not been supported due to a continuing decline in R&D, (c) an inefficient and high-cost manufacturing operation, (d) a volatile labor union situation, (e) unhappy customers who had felt the brunt of RCA's lack of interest in continuing the state-of-the-art in its product line, (f) a rudimentary management information system, (g) the intrusion of foreign competitors in the low-end of the two-way radio market, the fastest growing segment of the market, and (h) overall low performance standards of the employee force as a whole. This situation was further aggravated by the new company being somewhat under capitalized.

III. THE INVOLVEMENT OF TACTEC WITH TAAC

After a series of discussions between representatives of TAAC and TACTEC, it became apparent that TACTEC has the ability to support its contention that its operations had been and were being adversely affected by foreign imports. TACTEC representatives then prepared the various reports that were necessary to obtain certification, and having received such certification, participated with TAAC in the process of preparing REQUESTS FOR PROPOSALS from industry consultants and evaluating the proposals. Throughout this process TACTEC representatives were in frequent contact with officials of TAAC, and their assistance was invaluable in enabling TACTEC to successfully utilize the Trade Adjustment Assistance Program as intended.

TACTEC is currently having its new marketing strategies evaluated by independent industry consultants. Through a series of joint venture and sub-contracting arrangements, TACTEC has positioned itself so that it will have available during 1983 state-of-the-art products in the new cellular and trunking technologies, and will also add new low-end products to its product line whereas previously only high-end products had been offered by RCA. A consulting project is currently underway to evaluate the marketing strategies associated with these new products. Also, two consulting projects are pending which would assist the Company in other important areas—Manufacturing and our Management Information Systems. Further, TACTEC has entered into discussions with officials of TAAC relative to availing itself of the loan provisions of existing legislation, in order to assist in the financing of the machinery and equipment, inventory and marketing cost requirements for the new products.

IV. THE IMPORTANCE OF TAAC ASSISTANCE TO TACTEC

The Company is in a turn-around situation that unfortunately was undertaken during the worst recessionary period in over 50 years. Significant cost reduction ef-

forts, including employee layoffs and a 15 percent across-the-board salary reduction, have been made in order for the Company to remain viable. In these circumstances it is difficult for TACTEC to justify engaging outside consultants to assist it, regardless of whether such expenditures would be expected to generate cost savings in the future. The Company's current financial condition requires that it emphasize its short term cash position, unfortunately at the expense of the future. Thus, without the assistance of TAAC, TACTEC would not have been able to avail itself of the consulting assistance that it considers important in insuring that the marketing strategies associated with the Company's new products will maximize the Company's profitability.

We believe this assistance has been important to TACTEC's survival and that it represents an appropriate use of tax-payer funds for the following reasons:

a. TACTEC's survival (through maximizing the profitability from its new products) is important in maintaining existing jobs in a section of the country that is economically depressed.

b. It helps to resist further encroachment by Japanese and other foreign competitors into the US telecommunications market.

c. The combination of existing radio electronics capabilities with microprocessors has continued TACTEC's position as a high technology company. This is considered most important in our country's efforts to maintain its edge in the high technology area, and specifically in the Western Pennsylvania area which is attempting to emphasize high technology.

d. TACTEC's survival serves as a counter-weight to the monopoly position of Motorola in this industry.

e. Although in a relatively modest way, TACTEC is helpful to the U.S. balance of payments in that it exports over 15 percent of product sales.

Again, I thank you for this opportunity to express TACTEC's views on this important matter. I would be pleased to answer any questions you may have at this time or in the future.

Chairman GIBBONS. Thank you, Mr. DuMars.

Mr. Rabin.

STATEMENT OF JOEL RABIN, PRESIDENT, MIAMI FOOTWEAR CORP., MIAMI, FLA.

Mr. RABIN. My name is Joel Rabin. I am president of Miami Footwear Corp. We manufacture medium- to high-priced ladies shoes in Miami, Fla. Our shoes are sold in many of the better stores in the country.

Imports began seriously affecting us in the seventies, and sales, and correspondingly employment declined. In 1978 we applied for trade adjustment assistance and we were certified to receive financial as well as technical support. From our experience, one doesn't work without the other, by the way.

This combination allowed us to formulate and implement a successful recovery plan. All our obligations are current. Our employee structure is over 90 percent plus Latin minority with a high female content. Unfortunately, the competition from imports has only grown stronger, leaving the domestic manufacturer to bear the brunt of the decline.

The trade adjustment program has given us the only opportunity to obtain the all around help we need and the domestic shoe industry will need to go forward. I strongly recommend the continuation of this program.

Thank you for your time. It is late, and if I can answer any questions, I will be happy to.

[The prepared statement follows:]

STATEMENT OF JOEL RABIN, PRESIDENT, MIAMI FOOTWEAR CORP.

My name is Joel Rabin. I am president of Miami Footwear Corporation, located in Miami, Florida. I am a native Floridian, a graduate of the University of Florida and became President of the Company in 1974, succeeding my father. I have spent nearly all of my working life at Miami Footwear, working in all functional areas of the company.

Miami Footwear was founded in 1946 as a manufacturer of slip-lasted footwear and shifted to cement-lasted construction in the late fifties. The company is known as a producer of high quality, medium-high priced (\$75-\$100 in retail, depending on material) women's fashion footwear of both the open (sandal) and closed type. The footwear we produce are made of leather and other specialty materials such as snakeskin. We normally do not use man-made material in our products, except for a few specialty items. More recently the company has designed and marketed a line of lower-priced fashion thongs and other type footwear which are manufactured in other local plants.

Imports began seriously impacting the company's specific product areas and markets in the seventies, and from 1974 to 1978, the company's unit sales volume declined by nearly 30 percent. Employment had declined from a high of about 280 to under 200. The company incurred losses in 1978, and was relying heavily upon short-term secured debt at rates nearly 6 percent above prime, and with severe limits on the amount that could be borrowed.

In 1978, the company filed a request for Trade Adjustment Assistance with the Department of Commerce and the company was certified as eligible to apply for such assistance, which it did.

Through the Trade Adjustment Program, a consulting firm, experienced in the footwear industry, was provided to assist the company in developing a strategy to overcome the impact of imports. The consultants conducted a diagnostic study of all facets of the company's operations and, together with management, developed a recovery plan which included the following elements:

1. A marketing plan which included consolidation of styles produced at the company's plant plus methods of obtaining new classes of customers.
2. Plan and implement improvements in factory scheduling, purchasing and inventory control.
3. Changes in factory layout and equipment utilization.
4. A financial plan which would provide the company with the resources to implement the overall plan.

The plan was approved by the Department of Commerce and the company was granted both technical and financial assistance. The technical assistance consisted of 12 person-months of consultant time to assist the company in implementing various aspects of the recovery plan. Financial assistance consisted of a \$1 million direct term loan in two stages from EDA in conjunction with a revolving line of credit provided by the private sector of up to \$1 million without a government guarantee. Up to this time, the company has successfully met all of its obligations on the government loan on a current basis.

The company showed marked improvement in operations after entering the Trade Adjustment program. For example, during one selected period, the company showed:

- (1) An 11 percent increase in employee's average hourly pay.
- (2) An 18 percent increase in average pairs per hour.
- (3) A 5 percent decrease in labor cost/pair.

Sales volume in 1981 was nearly \$7 million, and in 1982, \$7.8 million, compared to \$4.2 million in 1978. Employment at the company's plant, plus a local subcontractor's plant where certain new styles are produced, was about 280 as compared to under 200 total in 1978. The company's employees consist primarily of Spanish-American workers, the majority female, in the Miami area.

Up to this time, the company has successfully met all of its obligations on the government loan on a current basis.

Despite these successes, imports are still the major competition to our company and there are likely further actions we must take to remain competitive. With the recent decline in retail sales, import competition in the fashion lines are taking an increasing share of the market, and domestic manufacturers bear the brunt of the decline.

The Trade Adjustment Assistance Program has certainly been for us a cost-effective way to give us the opportunity to adjust to a free trade policy. There is no other way the company could have obtained the technical and financial assistance necessary to make the improvements we have. I strongly recommend to the Committee that this program be continued.

Chairman GIBBONS. You know, you all have raised a very interesting problem, one that has always been a challenge to us: How do we adjust best to the kind of competition that we have? Of course, I guess all of life is a series of adjustments, and there are some that advocate that we just have a sort of survival of the fittest and let the others die along the way.

There are others that ask if there isn't a more humane way we can handle these problems. It has been that debate that has kept the Congress tied up in how to get it done. The current administration, of course, as you know, is pushing the survival of the fittest, but even they now recognize that there is a point beyond which you cannot let your economy slip or slide; that for governmental considerations, you have got to take some kind of action.

I will take the statements that you all have made here and analyze them closely and see what we can do to see if there isn't some kind of humane way that we can help not only the people involved and the companies involved but help America, too.

I appreciate your coming all this great distance and waiting this long time to testify today in this hearing. In many ways what you all have said are some of the more important things that have been said here, so I take them very seriously.

This concludes the subcommittee hearings for today on the fiscal year 1984 budget requests and authorization bills. The record will remain open until close of business on Tuesday, February 22 for additional statements and information specifically requested by the subcommittee during the earlier part of the hearings today.

We are going to have to go into some kind of extended hearing and markup session on trade adjustment assistance. We have bills now pending before the committee or soon to be pending before the committee on this matter, and your testimony has been very helpful.

Mr. FENNELL. Mr. Chairman, we would like to thank you very much, and I would like to echo my colleagues' thanks to you for the leadership that you have shown not just last year but throughout your tenure on issues of this sort, and the leadership and understanding that you have had of the deeper problems than even we have brought up.

Thank you very much.

Chairman GIBBONS. Thank you.

The meeting is adjourned.

[Whereupon at 5:50 p.m. the hearing was adjourned.]

[The following was submitted for the record:]

AMERICAN TEXTILE MACHINERY ASSOCIATION
Falls Church, Va., February 14, 1983.

Representative SAM M. GIBBONS,
House Ways and Means Committee,
Washington, D.C.

DEAR MR. GIBBONS: This is to inform you of the U.S. textile machinery industry's keen interest in the Office of Trade Adjustment Assistance.

OTAA has provided this industry association and its members some means to compete with the inequitable trade practices of offshore textile machinery suppliers. With these practices, many government sourced, offshore competitors have penetrated markets at an amazing rate since 1960 when U.S. textile machinery makers commanded 93 percent of domestic sales and 15 percent of the world market share. These shares have been halved in just 20 years. We seek technological and market parity.

The enclosed report examines this decline and recommends realistic methods to reverse it. Without the OTAA program this valuable work would not exist. Further, this study has exposed the industry collectively, and its individual units, to the many fine programs of OTAA. We need this resource, in fact, we need more of it.

The industry and several firms have received high quality adjustment advice to compete technologically and in the marketing arena. Through OTAA our industry of small businesses—more than 400 of the 600 firms have fewer than 20 employees—have been given some hope of regaining markets and jobs, more than half of total employment being lost in 20 years.

The stabilization and revitalization of this nation's textile machinery industry is vital to basic economic health and national security. Without this, textile machinery's customers—perhaps, the largest employers in the nation—are subject to questionable pricing practices from offshore and being hostages to offshort controlled technology. Truly, OTAA can materially help this.

Finally, in recent years, despite inequity in competitive practices, our industry has exported its production in the 25 percent range of annual sales. This contribution to the trade balance can be continued, and expanded, on a broader base as the developing and lesser developed nations of the world become more self-sufficient. Some potential growth projections are staggering. The U.S. textile machinery industry should share in this growth.

Yours truly,

HARRY W. BUZZERD, JR.,
Executive Vice President.

STATEMENT OF THE AMERICAN TEXTILE MACHINERY ASSOCIATION



EDA Grant Nos. 99-26-07052-10
99-26-07111-10

OPPORTUNITIES AND STRATEGIES FOR U.S.
TEXTILE MACHINERY MANUFACTURERS TO
IMPROVE THEIR COMPETITIVE POSITIONS
IN DOMESTIC AND FOREIGN TEXTILE
MARKETS - 1980 - 1985

FINAL REPORT

SEPTEMBER 1, 1979 - DECEMBER 30, 1980

"This technical assistance project was accomplished under a grant from the Economic Development Administration. The statements, findings, conclusions, recommendations, and other data in this report are solely those of the grantee and/or its consultants and do not necessarily reflect the views of the Economic Development Administration."

American Textile Machinery Association
1730 M Street, N.W., Washington, D.C.

May 1981

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PART ONEI. INTRODUCTION

The American Textile Machinery Association (herein known as ATMA) received grants from the U.S. Department of Commerce under the title Economic Development Administration Technical Assistance Grant No. 99-26-07052-10 and 99-26-07111-10. The grants commissioned a study to provide members of the U.S. textile machinery industry strategic marketing and technological plans for future result-oriented action programs worldwide and provide intelligence on 51 textile countries in which sales might occur. The plans would represent a combination of individual machine manufacturers initiatives, collective actions through ATMA and appropriate support from the U.S. Government.

II. STUDY OBJECTIVE

To improve the U.S. textile machinery industry's domestic and international competitive position within a five-year period and thus increase the industry's viability (as an important provider of jobs and vital technology).

III. SCOPE

To fulfill the objective above, two major subjects were addressed:

1. The identification of markets, marketing and technical opportunities for U.S. machinery manufacturers.
2. The recommendation of practical and achievable results-oriented action programs which would generate successful sales of U.S.-made textile machinery in the U.S. and abroad between 1980 and 1985.

More specifically, the study was divided into sub-projects as follows:

- Technology Assessment
- Marketing Assessment
- Market Identification and Country Studies
- Government Programs Identification

The work program for each is described separately below.

IV. STUDY BASISTechnology Assessment

There were developed comparative technical analyses and assessments of the "state-of-the-art" textile machinery technology. The evaluation compared U.S. manufacturers against the world's major producers from Germany and Switzerland in particular and to a lesser extent from France, Italy, Japan and the United Kingdom. In addition, advances by Eastern bloc nations, Czechoslovakia, were included.

More specifically, the technology assessment covered:

1. Processing systems/technology commonly in use
2. Recent developments (commercial)
3. New advances (under evaluation)
4. Potential development directions in the future
5. Obsolescence/risk considerations
6. Technical strategy considerations -
5 years - in developed high wage countries
7. Technical strategy considerations -
5 years - in developing low wage countries

Where possible, the analyses took into account the anticipated impact of new technological developments and concepts beyond the five-year period. This recognized the time required to develop and prove-out new process and equipment technology on a semi-commercial scale and to introduce and establish mill programs.

Consideration was also given, where applicable, to the practicality and attainability of new developments as well as the financial and technical resources that should be mobilized by U.S. makers.

As a result of the above, there appears to be specific technology areas where U.S. textile machinery producers have short-term potential opportunities worthy of exploiting. Conversely, where little potential may exist, they are not meritorious of effort and development into new technical areas since they may require in excess of five years from inception to commercialization.

The machinery categories considered are as follows:

1. FIBER PRODUCTION

Extrusion
Spin/Draw/Wind
Tow to Top Converters
Tow Cutters

2. TEXTURING

Texture
Draw Texture

3. SHORT STAPLE - BALE TO CARD

Bale Feeding
Opening and Cleaning
Packing
Chute Feed Systems
Cards

4. SHORT STAPLE - DRAW THRU SPINNING

Drawing
 Combing
 Roving
 Ring Spinning
 Open End Spinning
 Auto Doffers

5. LONG STAPLE

Wool Scouring, Opening and Blending
 Tow/Top Processing
 Carding
 Combing, Gilling, Pin Drafting
 Roving
 Spinning, Ring-Self Twist, etc.
 Open End Spinning

6. YARN PROCESSING

Conventional Twisting
 2:1 Twisting
 Winding
 Yarn Conditioners, Twist/Heat Setters,
 Bulking Machines

7. WARP PREPARATION

Warping
 Slashing - Beaming
 Draw-In, Tie-in

8. WEAVING

Shuttle
 Shuttleless -
 . Missile/Projectile
 . Rapier-Flexible
 . Rapier-Rigid
 . Waterjet
 . Airjet
 . Waveshed

Cloth Inspection

Wet Feed

9. KNITTING
 - Circular Knit
 - Warp Knit
 - Flat Knit
10. NONWOVEN
 - Fiber Preparation
 - Web Formation
 - Wet Bonding
 - Tufting
 - Stitchbonding
11. DYEING
 - Raw Stock
 - Package
 - Batch, Continuous Piece
 - Skein
 - Foam Processing
12. PRINTING
 - Rotary Screen
 - Flat Bed
 - Heat Transfer
 - Roller
 - Agers, Curing Units, Soapers
13. PREPARATION AND WET FINISHING
 - Preparation
 - Wet Finishing
 - Web Controls & Storage Devices
14. DRY FINISHING
 - Nappers, Sanders, Brushers, Calenders, Shears, Decaters, Singers
15. AUXILIARIES

The grantee retained Werner Management Consultants, Inc. and sole-source Henry H. Richardson to perform the major portions of the technology and marketing assessments and market identification and studies.

Methodology involved the following:

1. Extensive internal research and development information and data banks.
2. Literature searches.
3. Direct and survey interviews with knowledgeable U.S. and overseas machinery manufacturers and users of textile equipment.
4. Direct interviews with selected members of academia and other knowledgeable independents having experience in machinery technology and development.
5. Investigation and evaluation of ITMA 79 textile machinery exhibition in Hannover.
6. Thorough and extensive comparative analyses of textile machinery products made worldwide.
7. An assessment of research and development resources of U.S. machine makers.

A matrix was developed which embodies on a relative scale the following features:

1. Machine areas vulnerable to foreign competition.
2. Categories where U.S. is superior to foreign competition.
3. Important classifications requiring research and development to maintain and/or improve competitive posture of U.S. makers.
4. The relative importance of machine areas to the overall health of the U.S. textile industry.

Marketing Assessment

There was developed a comparative assessment of the marketing strategies, both successful and unsuccessful, methods and programs employed by the major international textile machinery producers. Recognizing that differences in marketing approach exist for each machinery category or sub-classifications outlined above, emphasis was placed on successful and unsuccessful examples of marketing strategies and deployment of manpower assets employed by foreign makers. West German and Swiss producers were singled-out and compared with U.S. firms with lesser emphasis on other major world producers. The investigation focused on the increasing ability of foreign makers to manufacture and market their products in the U.S.

1. The investigation evaluated the relative importance of the following elements:

(a) Key Marketing Success Factors for Machinery Sales:

- Product Lines
- Product Quality & Dependability
- Prices
- Price/Quality Relationships
- Product Development
- Sales Force

- Deliveries
- Customer/Technical Service
- Merchandising/Advertising and Public Relations
- Supplier's Reputation

(b) The Importance and Interrelationships of Other Factors:

- Strategic Market Planning
 - Payment Terms
 - Consignment Practices
 - Availability of Low Cost Financing
 - Analyses of Return on Investments
 - Inplant Mill-Scale Trials
 - Management/Leadership
 - U.S. Government Import/Export Regulations and Tariffs
 - International Monetary Relationships
 - Social, technical, economic and legislative factors
 - Conglomeration
2. An appraisal was conducted of the major West German and Swiss machinery manufacturers and other selected world producers compared to U.S. counterpart firms.
 3. Based on the information developed, the comparative strengths and weaknesses of the U.S. textile machine manufacturers were identified and evaluated.
 4. Against this background at the machinery manufacturing level, a determination was made of the plans and future intentions of major domestic and international textile mills to modernize plant and equipment over the period 1980-1985. Also, an identification was made of where the emphasis would likely be over this time frame.
 5. The study presented recommendations on future overall marketing strategies and action-oriented marketing programs to achieve projected goals. It also specifies the requirements, resources and abilities both from the public and private sectors to attain them.

The ATMA in its "Study Proposal" presented two scenarios which were evaluated in light of the project findings. The examples illustrated were as follows:

1. Given the recent government encouraged export commitment of the U.S. textile industry a new development - are there now opportunities to offer completely integrated U.S. packages and systems to nations intent on developing textile capacities? For example, is it

feasible for U.S. fiber producers, textile machinery manufacturers and textile mills to offer to customers their products and expertise in a unified fashion on foreign soil working with the active support of the U.S. Government?

2. Given the intent of identified nations to develop their textile capacities, are there now opportunities to present in new ways U.S. textile machinery on U.S. soil to foreign (and U.S.) buyers? For example, could this study result in a plan whereby potential buyers (foreign or U.S.) would be conducted on a tour of the textile heartland. Imagine: Begin in the Northeast, where it all started on the Blackstone River, see textile machinery facilities, tour Old Sturbridge Village - move on to Washington, D.C. for meetings with Department of Commerce and Eximbank officials - head South, stop in Charlotte, North Carolina, for tours of machinery firms and meetings with private banks - drive to Greenville, South Carolina, observing along the way hundreds of fiber plants, machinery firms and textile mills - arrive in Greenville to be presented private machinery demonstrations and technical presentations in Textile Hall, be impressed with the historic expertise of the industry at Textile Place (if it materializes), meet with academia at Clemson, Greenville Tech or other universities.

Other marketing approaches have been considered and are reported on for consideration and implementation.

The study involved:

1. Field work encompassing interviews with key decision-making representatives:
 - . U.S. and foreign machinery producers
 - . U.S. and foreign textile mill executives
 - . Allied trade association executives and technical officials
 - . U.S. and foreign government agencies
 - . Amatex (The U.S. textile machinery industry's Webb-Pomerene organization.)
2. Interviews with representatives of research and development organizations directly and indirectly engaged in new technology activities.
3. Surveys of major fiber producers and suppliers of dyes and auxiliary chemicals to monitor and assess new related developments which may impact favorably or unfavorably with the state-of-the-art.
4. Industry feedback meetings and seminars.

Market Identification

The purpose of this investigation was threefold:

1. To identify foreign sales opportunities in lesser developed countries where large expansion is anticipated over the period 1980-1985.
2. To identify the modernization and replacement opportunities in the U.S.
3. To provide immediately useable data and information for U.S. machinery manufacturers to direct their sales efforts based on identified needs and anticipated customer receptivity.

This work has resulted in the development of "customer lists" by market segmentation and in various countries.

For each country, lists included foreign potential buyers in terms of ownership, location and product line. The country list was adjusted from that proposed in ATMA's original proposal; for example, some originally considered promising, are not and vice-versa.

By geographic region, the final list is as follows:

AFRICA	LATIN AND CENTRAL AMERICA	EASTERN EUROPE AND ASIA	FAR EAST
Algeria	Argentina	Bangladesh	Hong Kong
Angola	Bolivia	Bulgaria	Indonesia
Cameroon	Brazil	Czechoslovakia	Korea
Egypt	Chile	Hungary	Malaysia
Ghana	Colombia	India	Philippines
Ivory Coast	Costa Rica	Israel	Taiwan
Kenya	Ecuador	Pakistan	Thailand
Morocco	Guatemala	Poland	
Mozambique	Honduras	Romania	
Nigeria	Mexico	Syria	
South Africa	Peru	Turkey	
Sudan	Uruguay	Yugoslavia	
Tanzania	Venezuela		
Tunisia			
Zaire			
Zambia			

Some countries were excluded for the following reasons:

<u>Country</u>	<u>Political</u>	<u>Reason for Exclusion</u>		<u>Other</u>
			<u>Small Textile Ind.</u>	
Afghanistan	x			
Botswana			x	
Burma			x	
Cuba	x			
Dominican Republic			x	
East Germany	x			N.A.
El Salvador	x			
Ethiopia	x			
Haiti			x	
Iran	x			
Iraq	x			
Jamaica			x	
Liberia			x	
Libya	x			
Madagascar			x	
Malawi			x	
Mali			x	
Nicaragua	x			
People's Republic of China				N.A.
Senegal			x	
Somalia			x	
Zimbabwe (Rhodesia)	x			

N.A. = Information not available or reliable.

There are separate comments on the People's Republic of China.

For the U.S. market, it should be noted that virtually all textile mills will be required to embark on capital equipment purchases in the five-year period covered by this study. The driving forces to support this statement include the need to modernize plants, to deskill operations, increase productivity, to comply with OSHA/EPA regulations and to effectuate energy cost reductions and other capabilities to consume alternate fuels.

The U.S. textile mills are well-known to ATMA members and lines of communication are well-established. Detailed lists of U.S. mills including plants and locations, management rosters, equipment employees, product lines, etc. are contained in Davison's Textile Blue Book and Davison's Knit Trade issued and updated annually by Davison Publishing Company, Ridgewood, New Jersey.

The above recognizes that the U.S. and European markets are large and already mature and that future sales opportunities are expected to be associated with modernization and replacement needs. Also, the lesser developed countries represent sizeable growth potential as their textile complexes develop into world competing industries. The thrust to foreign sales provides the U.S. textile machinery industry, if successful, a basis for capital investments to fund research and development for future exploitation.

In this study, an attempt was made to distinguish between U.S. (and local) government imposed (OSHA/EPA) and voluntary machine purchases planned by U.S. textile mills.

Some emphasis was placed on literature research, however, sufficient direct contacts with key mill executives, trade association representatives and government resources were made to fulfill the needs of the study.

Government Programs Identification

This segment of the study provides a summary of federal financing/other assistance available to the U.S. textile machinery industry, in direct response to the study's market recommendations to make the industry more competitive. The programs identifications and descriptions are not presented as being all inclusive or technically complete, but rather introduce the reader to possibilities for further investigation; most attention was devoted to U.S. Department of Commerce. The information was obtained through literature search and interviews with government officials.

Overall Project Administration

ATMA's Market Development Committee supervised its staff in the organization, supervision, administration, and general conduct of the total assignment. Consultants were retained as noted in this report.

Over the course of this project, there were conducted interviews with at least 158 companies both overseas and in the United States. The following table shows a breakdown in these interview categories:

Organizations Contacted

ATMA Members	
Direct Interviews	52
Indirect (Mail)	10
U.S. textile mills	33
Overseas textile mills	28
Academia	6
Non-ATMA textile machinery mfgs.	
U.S.	2
Overseas	18
Government/Trade Associations	9
	<u>158</u>

Included in the organizations contacts were no less than 450 individuals who represented the key related business and technical disciplines within the respondent organizations. In all cases, these respondents were considered knowledgeable decision-makers and/or leaders in their respective fields. Sufficient coverage had been made of the textile machinery and related industries to fully deal with the objectives of this project.

Large-scale interim verbal review meetings were conducted twice during the progress of the studies. The first meeting was held on July 31, 1980 at ATMA's Mid-Year Management Conference in Atlanta, Ga. The second meeting was conducted in Greenville, S.C. at the ATME-I 1980 (American Textile Machinery Exhibition-International). All U.S. textile machinery manufacturers had the opportunity to be involved. At each review meeting considerable dialogue took place on various issues and discussion points. The enthusiastic participation was most beneficial in providing the technical and marketing input and it served notice that the industry is keenly interested in the conclusions and recommendations. This augurs well for the cooperation and commitments to carry out the recommended action programs. Additionally, several progress review reports were issued during the course of this study. This served the purpose of keeping all key parties informed of project status and results to date.

ATMA's Market Development Committee undertook several written and meeting "milestone" reviews prior to the issuance of this final report.

General Comments and Acknowledgements

Grateful appreciation is extended to all ATMA member companies and their respective executives who fully cooperated and provided the information and insight to facilitate a thorough understanding and appreciation of conditions and situations which have and still exist. The response from the membership was exceptional with 62 companies or 49% of all members participating. It is estimated that the 62 ATMA firms contacted (out of a total of 127 members) represent about 75-80% of the total industry sales volume. This excellent performance indicates the ATMA concern for and interest in critical industry problems and the need for understanding and assistance in addressing the fundamental issues.

In describing the state-of-the-art, examples have been used to highlight and illustrate the issues being discussed. This has been done for clarification and understanding only. It is not intended to single out one or more products or companies nor should such identification be construed to represent an endorsement or recommendation.

Many observations, statements and practical experience have come from trade sources.

During the field contacts, to ensure objectivity and unbiased comments, it was necessary to inform interviewees that discussions were regarded as confidential and that privileged information would not be disclosed. Also, many respondents wished not to be quoted by name.

One note of caution. The reader should be careful not to take statements out of context. This could lead to erroneous conclusions.

It should be recognized that the audience for this report is quite widespread in interest, technical understanding and experience as it encompasses executives, administrators and technicians of the U.S. textile machinery industry and of various U.S. Government departments and respective agencies. To cover such a diverse audience, it was decided to orient this presentation, descriptions and explanations to those not intimately knowledgeable of the various technologies and business sectors involved. It is hoped that this approach would facilitate the comprehension of the issues and the respective implications.

ATMA gratefully acknowledges the contributions of the following persons and organizations, without whose efforts this work would not have been possible:

1. Department of Commerce, Economic and Development Administration
Trade and Industry Assistance Division
Verna Richardson and Peggy Almazan
2. Market Development Committee of ATMA, Chairman Thomas J. Riggs, Jr.
3. North Carolina State University, Dame Hamby, Associate Dean for
Textile Extension
4. Henry H. Richardson
5. Technical Services Committee of ATMA, Chairman Joseph Hurteau
6. Werner Management Consultants, Inc.
Jack Werner, Trevor Finnie and the entire project team.
7. Zuchelli, Hunter & Associates, Inc.
8. And all unnamed individuals and firms who responded.

V. PROFILE OF COMPETITIVE FORCES

Since the 1950's and early 1960's, the U.S. textile machinery industry's posture eroded substantially. Whereas this industry was once a strong trade performer for the United States, it is now in a serious declining position. This is exemplified by the decline in share of world textile machinery sales from 15.5% in 1960 to 6.6% in 1979.

TEXTILE MACHINERY SALES* BY U.S. COMPANIES

	<u>DOMESTIC</u> <u>% OF U.S. MARKET</u>	<u>INTERNATIONAL</u> <u>% OF WORLD MARKET</u>
1960	93.4%	15.5%
1970	67.1%	9.9%
1979	54.5%	6.6%

Source: Domestic - Dept. of Commerce
International - Data Resources Inc.

*Includes leather machinery.

On the home front, in 1960, U.S. textile machinery makers supplied 93.4% of total domestic sales; today, only 54.5% comes from local sources. This decline occurred during a time when the U.S. primary textile industry was modernizing and upgrading its equipment. This poor machine sales performance prompted Business Week in its special issue of June 30, 1980 to comment: ".....the technological upgrading of the U.S. textile industry (mill products), one of the few successful responses to competitive pressures, has been accomplished largely by using foreign equipment."

The root causes point to a complexity of relatively new competitive pressures, confusing and sometimes contradictory constraints and restrictions and a host of external and internal forces which must be addressed and dealt with in the future. They signal the need to recognize and understand the many issues which have no simple quick solutions and to formulate new imaginative directions, strategies and action programs which must involve the endorsement and support of business, labor and government.

As background, it is meaningful to briefly examine the basic problems which most U.S. industries face today, to set the scene for the difficult times ahead for the U.S. textile machinery community.

All U.S. industry has experienced a 23% loss of world market share in the 1970's despite the offsetting effect of dollar devaluation of 40%. This translates into a \$125 billion loss in total production and an estimated 2 million fewer industrial jobs in the United States.

It is a matter of record that U.S. technology innovations during the 20th century have been nothing less than spectacular. Examples included telecommunications, xerography, the airplane, the automobile, television, computers, space hardware, etc. In recent years, however, there is frightening evidence that our innovativeness and creativity have been seriously declining:

* U.S. industrial research and development dollars has not kept pace:

<u>Year</u>	<u>Billion Dollars</u>	<u>% of GNP</u>
1969	21.1	2.2
1979	22.7	0.9

* The number of patents filed by U.S. inventors have been declining:

1966	76,000
1975	64,000

Comparing share of U.S. patents granted to foreign nationals, the percentages are increasing:

1966	13%
1975	28%

*Productivity expressed in output per hour worked has shown alarming decline:

	<u>% Per Annum Increase</u>	
	<u>U.S.</u>	<u>Germany</u>
1967-1973	2.9	5.0
1973-1979	1.6	5.0

Many causes have been cited to explain this deteriorating performance. Some of the major contributors are as follows:

- 1) Inconsistency of U.S. Government Policy.
Government policies and our existing tax structure have seriously discouraged investments, have seriously limited productivity gains and have stifled innovation. These in turn have had a negative impact on modernization of plants and equipment, economic growth, and trade competitiveness.

The reasons most often cited relate to government policy inadequacies and inconsistencies, and failures in federal action where and when needed in respect to spending, regulations, international trade, natural resources development, antitrust enforcement, and industrial promotion.

- 2) Failure to sell abroad.
U.S. industry has traditionally concentrated on the large market potential offered by the U.S. and has operated only marginally overseas.

Business Week* observed the following: Corporations do not generally think about exports as an integral part of their operations. Washington has relegated trade policy to fifth place in determining economic policy for the country. Export policy has been far from the central concern of Washington decision-makers that responsibility remains divided among dozens of agencies and thousands of bureaucrats."

Some of the roadblocks are trade embargoes, antitrust laws, Export-Import Bank restrictions, Human Rights Policy, Foreign Corrupt Practices Act, and OSHA/EPA regulations.

- 3) Penalty for Short-Term Corporate Strategies.
The economies of the 1950's and 1960's were fueled by a rising U.S. population and increased consumer buying power. To take advantage, business plans were short-term in scope and emphasized increased production capacity and reduced unit costs. In the 1980's, the U.S. population is approaching near zero growth. Additionally, there is a redistribution of world wealth that has triggered new competitive forces between domestic companies and between U.S. and foreign companies. These conditions coupled with many new confusing economic, legislative, social and technical factors make it necessary to plan further into the future. Many decisions today are made to handle immediate issues. Sometimes, these decisions seriously impact on the future.
- 4) Double digit inflation; outdated plants and equipment; strained labor relationships; high interest rates, and more.

*June 30, 1980

VI. PROFILE OF PRESSURES AFFECTING COMPETITIVENESS

The U.S. textile machinery industry has lost its historical and competitive place in domestic and international textile machinery markets.

The general conditions in the U.S. economy and industrial sector described above have had an overall negative impact on the U.S. textile machinery industry.

There has been a substantial drop in the U.S. manufacturers' share of world textile machinery sales and in share of U.S. market.

World export trade in textile machines is an important element in overall machinery sales and approximates 50% of total world sales. In 1978, the U.S. captured maybe about 9% of the international trade portion.

Eight major countries accounted for 93% of the world textile machinery trade in 1978, as shown below.

WORLD TRADE* IN TEXTILE MACHINERY

	<u>% OF WORLD TRADE</u>	<u>% ITMA 79 FLOOR SPACE</u>
W. Germany	30	31
Switzerland	11	9
Japan	11	2
U.K.	11	10
U.S.A.	9	4
Italy	9	24
France	9	7
Benelux	3	2
Spain	1	3
Other	<u>6</u>	<u>8</u>
	100	100

All of these countries with the exception of the U.S.A. export more than they consume (Germany exports 85% of its production). Conversely, some countries with a substantial textile machinery industry export very little, e.g., USSR, India.

*Exclusive of each country's domestic sales.

North America relative to other major world continents runs number three in size for active spindles and active looms.

PERCENT DISTRIBUTION OF ACTIVE SPINDLES
AND LOOMS BY CONTINENT IN 1977

P E R C E N T					
	<u>WORLD POPULATION</u>	<u>ACTIVE SPINDLES</u>	<u>AUTO</u>	<u>ACTIVE LOOMS NONAUTO</u>	<u>TOTAL</u>
North America	6	15	17	1	12
South America	8	6	6	8	7
Europe	17	32	32	27	30
Africa	10	4	5	2	4
ASIA & OCEANIA	<u>59</u>	<u>43</u>	<u>40</u>	<u>62</u>	<u>47</u>
TOTAL %	100	100	100	100	100

Overseas markets dominate and will continue to do so in the future. Export sales are vital to the future of the U.S. textile machinery industry.

The breakdown of the world market for textile machinery in 1978 is fairly evenly divided by sector. The U.S. is not equally strong in all these categories as will be shown in this study.

BREAKDOWN OF WORLD MARKET IN TEXTILE MACHINERY

	<u>1978</u>
	<u>%</u>
Yarn Formation	32
Fabric Formation	23
Dye/Finish/Print	20
Spare Parts/Auxiliaries	<u>25</u>
Total	100

The value of spare parts business as a percent of international textile machinery sales varies greatly by country. The U.S. has major dependence on spare parts business. This stems from past machinery successes. The U.S. 1973-75 value of spare parts business as a percent of international sales is 92%, W. Germany, 49%; U.K., 51%; and Italy, 27%.

The image of U.S. textile machinery manufacturers held by U.S. and overseas textile mill executives is generally poor. This recognizes that some U.S. machine-makers are excellent and held in high-regard individually, but they are not strong enough to elevate the overall impression.

This image is not fully warranted.

A case was cited in the trade press (Daily News Record, January 21, 1980) of a negative "editorial" comment to a decision by Swift Textiles, Inc., Columbus, Georgia to purchase Draper (Rockwell International) DLG looms. Mr. Boland, President of Swift was quoted as saying:

"The Sulzer does very well, but after six months of tests we found it can't do anything the DLG* does for less money."

The reporter editorialized:

"In some textile circles, such a statement is tantamount to heresy, for while Draper once dominated the U.S.A. loom market, Sulzer and other foreign loom manufacturers have virtually turned the tables completely in the last 15 years. Swift's decision to stay with Draper has surprised many textile people."

The poor image could be based on a perceived lack of commitment to sales and service as well as product development when compared against European machine manufacturers.

Another source of poor image is the controversy in the industry over the format and cycle of the American Textile Machinery Exhibition-International.

Solutions are achievable. But, a new and strong effort has to be launched by the industry, along with favorable governmental policies to stimulate investment in research and development and to assist in accelerated export strategies.

Along with many other industries in the U.S., the textile machinery industry has to undergo fundamental changes if its rightful place in world markets is to be restored. The American textile industry, the potentially largest customer base for U.S. textile machinery is among the three largest textile manufacturing complexes in the world. This industry finds itself today on the threshold of becoming the most competitive and productive industry in the world and its need to re-equip itself and to modernize are accepted facts. This industry cannot be left to depend on the supply of its vital equipment to foreign textile machine manufacturers. It does not make economic sense nor does it serve our national interest. Indeed, prevailing dependence on foreign sources constitute a definite threat to our national defense posture.

An American textile industry supported and equipped by an up-to-date U.S. textile machinery industry would become the preeminent textile producing industry in the world. The most conservative estimate of growth in fiber consumption worldwide ranges from 63 billion pounds today to 93 billion pounds by 1990 and could quite possibly be 105 billion pounds by that date. It is quite evident that current equipment in place cannot meet that demand even assuming that modern looms, for instance, can outproduce current equipment by 3:1.

The U.S. textile machinery industry, therefore, could have in essence a partner in the U.S. textile industry, which is the envy of the entire world in terms of productivity, product diversification and consumer acceptance and it is this solid potential customer base which could very well be the best "salesman" of U.S. textile machinery for the rest of a world which craves for a better life style, part of which is the clothing and home furnishings of its exploding human masses.

*Rockwell's Draper DLG Loom

But, the problems facing the U.S. machine makers are substantial. They must be addressed now and with full force and cooperation from industry members, labor and government. There are many technology opportunities available and growth textile markets to tap.

Hercin, is presented a number of recommendations to guide and direct U.S. industry action. The combination of these recommendations can be instrumental in bringing this industry back to its former position of leadership.

Four fundamental issues have caused the overall industry decline and its relatively non-competitive posture.

1. A severe decline in machinery technology as compared with foreign competition.
2. Dearth of new professional company, general and engineering management and leadership.
3. Foreign competition which has outdistanced U.S. manufacturers in some key machine sectors both technically and in marketing worldwide.
4. Many U.S. government policies and regulations have contributed to the non-competitiveness.

As a result of its worldwide comparative studies, the Werner team advised ATMA of the following apparent technology positions of U.S. textile machinery:

In the yarn area it is suggested U.S. machinery as follows is technologically sufficient: short staple bale to card, short staple draw to spin and long staple bale to spin. Weakness is noted for fiber production machinery, texturing and long staple bale to spin.

In the fabric area it is suggested U.S. machinery as follows is technologically sufficient: warp preparation and tufting. Weakness is noted for weaving, knitting and nonwovens machinery.

In the finishing area, except for printing, the U.S. technology is fully world competitive, as is U.S.-produced auxiliary equipment.

Sufficiency is not adequate in face of competitive onslaughts that can be expected.

During the past 15-20 years, textile machinery developments have undergone what is described as a technological explosion. This has virtually swept across all major processing categories. Not only has there been a widespread proliferation of new techniques and controls, the changes have occurred so rapidly that second and third generations appeared before earlier models were more than two to three years old. This had the effect of obsoleting recent new installations. Also, it resulted in general confusion as to which technologies are likely to survive and endure. The main thrust of these machine developments during the earlier years was to deskill operations (less labor intensity, ergo, more automatic controlling) and increase machine productivity (more product per operating hour).

This has been enhanced by the incorporation of computer and microprocessing technology into textile processing and machinery design.

Now, attention is being directed to energy conservation as the oil crises of 1974-1975 and 1980 created escalating costs and tenuous supplies and services. This will impel textile machinery developments in the future, since interest has peaked from government and industry sources concerning energy conservation and utilization. The U.S. textile industry is one of the ten largest energy consumers (in the United States), consequently, there is considerable attention and activity in both the public and private sectors to address the constraints and alternatives. It should be remembered that the textile industry historically was built on the premise that energy was inexpensive and plentiful. The recognition that this is no longer true has only recently occurred, yet still textile mill managers have yet to fully realize the impact of this issue.

It is noteworthy that equipment manufacturers, both abroad and in the U.S., have responded to this new need by engineering machines which consume less electrical power and other energies.

The question of machine obsolescence over the next five years has been considered. Obviously, some sectors are more prone to obsolescence because of current research activities and the rate of success of new technological developments.

The machine categories of high degree obsolescence based on anticipated new technological developments are considered to be weaving, tufting, and dyeing, printing and wet finishing.

The lowest degree areas are texturizing, short staple processing, knitting and nonwovens.

The relative degrees are presented in the table below. From this analysis, it is anticipated that new technical breakthroughs will occur in weaving, tufting, dyeing, printing and wet finishing. U.S. machine development activities in tufting, dyeing and wet finishing are likely to keep pace with foreign competition.

OBSOLESCENCE LIKELIHOOD

<u>TEXTILE MACHINERY AREA</u>	<u>RELATIVE DEGREE OF OBSOLESCENCE</u>
Fiber Production Machinery	Low to Medium
Texturing	Low
Short Staple-Bale to Card	Low
Short Staple-Draw to Spin	Low
Long Staple-Bale to Spin	Low to Medium
Yarn Preparation	Low to Medium
Warp Preparation	Low to Medium
Weave	Medium
Knit	Low
Nonwovens	Low
Tufting	Medium
Dye	Medium to High
Print	Medium to High
Wet Finish	Medium to High
Dry Finish	Low
Auxiliaries	Low to Medium

It is important to note, that new technical developments are being made in the U.S. by companies and individuals not now traditionally associated with the U.S. textile machine industry. Notable examples include:

- Ford Aerospace & Communications Corp. - fabric quality inspection, grading and control
- IBM - printing
- Xerox - printing
- Tom McGinley (private inventor) - waveshed loom
- Dayton Tinker Corp. (Mead Corp. development) - computer controlled jet dyeing and printing

In another pressure area: Management attitudes, judgments and actions of the past failed to promote the necessary degree of revitalization and replenishment of business during the strong and successful years. Today, there are insufficient funds internally generated to conduct the necessary research and development projects.

The industry coasted on its reputation and world position during the late 1960's and throughout the decade of the 1970's. During this time, the advances of foreign competitors particularly in the U.S. market were not considered serious. Not only was this thrust from companies with long-term machine developments and commercialized new technologies, it came in the form of fundamentally sound business and marketing strategies and well-conceived plans and executed actions. The competition made significant inroads while some of the major U.S. companies enjoyed substantial sales and profits from their spare parts businesses which required less attention and virtually no new capital investments.

Management appeared to be satisfied and complacent with financial performances and future prospects.

Unfortunately, profit margins declined as foreign competitors began to penetrate. With reduced cash flows, there were insufficient funds from on-going business to maintain the high level of long-term (5-8 years) research and development to keep the industry viable and current. Without new technology applications to advance textile processing and machinery, the industry fell seriously behind in many sectors and was forced out of others.

Many foreign textile machine manufacturers have established U.S. bases of operations, albeit in some cases a marketing effort only. During the 1970's foreign machine suppliers successfully penetrated the U.S. market and succeeded in supplanting their U.S. counterparts in many important machine categories. This was accomplished by having technologically advanced machinery, locally based sales/service personnel, mill trial technical programs, training facilities, etc.

Initially, the U.S. primary textile industry underestimated the resolve of overseas machine manufacturers to penetrate the U.S. market. This, in time, was overcome as foreign companies established credibility and demonstrated their strong commitments to sell quality products and serve U.S. mills. Despite this, U.S. mills today continue to state their preference to buy U.S.-made machinery if products were technically and economically competitive or better.

Additionally, overseas markets, and particularly in the lesser developed countries, are growing and future sales are attractive. The U.S. textile machinery industry enjoyed a 15% share of world textile machine exports in 1960. Today less than 9% further future decline is faced. The many factors which have contributed to this unsatisfactory performance are presented throughout this report.

Major future growth potential in textile machinery sales worldwide is overseas. Granted, the U.S. primary textile industry is expected to modernize primarily (little expansion anticipated) during the first half of the 1980's and considerable capital expenditures will be made. However, the development and expansion of textile industries in lesser developed countries will represent substantial growth potential and this needs to be addressed.

It is ironical that the machines being purchased in these emerging countries represent the latest advanced machine and process technologies which incorporate microprocessing controls to deskilled operations and thereby use less labor. By any reason, these purchases make no logical business sense yet they are occurring. On the other hand, U.S. textile machines vintage early in mid-1970's are more cost effective and more adaptable and suitable to the needs and capabilities of the lesser developed countries. Yet, they are being overlooked, partly because U.S. manufacturers have not sought this business and partly because competitive financial incentives and foreign government support programs outdistance those from U.S. sources.

The subject of competitive pressures is incomplete without considering economic factors. General publications of real price lists for textile machines on a worldwide basis do not exist. Prices, in fact, are negotiated and no logical rationale exists for actual prices paid at any given time of purchase.

For example:

- A new spinning plant in a Far East country. A major European machinery manufacturer won the bid by quoting on average 45% less than his prices specified at ITMA 79 in Hannover.
- Two mills in Italy received quotations from two major European loom makers on essentially identical equipment for both mills:

	<u>Mill A</u>	<u>Mill B</u>
Supplier 1	List Price	15% discount
Supplier 2	15% discount	List Price

The above suggests collusion.

- One machine manufacturer quoted a price 20% higher in Argentina than in Turkey for the same equipment during the same time period.

Although price levels are assigned, these are rarely followed. Many factors influence pricing with most compelling reason based on the desire or intent of supplier to win the sale. These involve financial incentives to both suppliers and buyers in regard to discounts, interest rates, terms, etc.; need to prove out technology on a commercial installation; need to have textile industry leaders buy and endorse product; need to force out competitor in an important installation; and need to sell equipment during lean times to ensure the maintenance of plant operations and employee complement.

It is interesting to note that pricing of textile machinery for like-equipment ranges considerably. For example, shuttleless looms can be purchased today for as little as \$20,000 (U.S.) and as high as \$65,000-70,000. Also, prices for open-end frames range from \$350 to \$1,200 per rotor. Granted the machines are not identical but the differences in technical capabilities do not warrant the widespread differences in price. The carrying cost per yard on the capital required for shuttleless looms approximates 16.5¢. This burden is disproportionate to the value of raw materials and value added to manufacture the fabric relative to the ultimate selling price of that fabric. Such a capital investment needs to be carefully scrutinized to be sure that the returns on investment are achievable in a reasonable period of time.

One obvious strength of competitors has been the ability to generate extremely high sales volume by specific manufacturers. About 90% of the companies in the U.S. textile machinery industry have annual machine sales under \$20 million and employed 19,000 in 1979.

FOREIGN MACHINE MANUFACTURERS HAVE HIGH VOLUME

SALES* FOCUSED ON EXPORTS!

(Approximate Textile Sales (only) in Millions \$ U.S.)

* BELGIUM/France:	PICANOL S.A.C.M.	\$200 (95% Export)
* CZECHOSLOVAKIA:	INVESTA	\$500 (High Exports)
* WEST GERMANY:	BARMAG SCHLAFHORST SCHUBERT & SALZER TRUTZSCHLER	\$650 (85% Export)
* SWITZERLAND:	RIETER RUTI SULZER	\$700 (95% Export)
* JAPAN:	MURATA NISSAN	\$275 (High % Export)

*Grouped to avoid specific company disclosures.

While some U.S. suppliers have creditable export sales, as a whole they have not placed significant effort on international sales. Because of the experience and expertise in international marketing possessed by foreign manufacturers, it will be very difficult for U.S. suppliers to penetrate without any significant technical advantage.

Foreign companies have concentrated on broad product lines within which most offer complete process systems that have high state-of-the-art technology. To this is connected a strong customer service orientation that is designed to respond to customer needs.

In many cases independent suppliers participate in group marketing organizations to extend their international reach.

A summary of the marketing approaches taken by important textile machinery supplying countries is presented in Market Organization Comparison. Specific references are made in each market sector analysis.

In recent years, foreign organized joint venture programs have emerged combining the engineering and marketing capabilities of participating members. Texma-Prato is just one example of an Italian consortium of leading machinery manufacturers from the Prato area. The combined capabilities include textile mills for textile fiber reclaiming and recycling, fiber blending, carding for yarn sliver and nonwovens, spinning for carded yarns, woven and knit fabric or yarn and raw stock dyeing, wet and dry finishing, and industrial and intermediary textile by-products.

The group consists of ten Prato companies and is represented in the U.S.A. by Importex Machine Corp., Fresh Meadows, New York.

Many other such ventures exist such as:

- Large construction companies such as Klockner of Germany providing total turnkey projects (building, machinery, financing, engineering to clients).
- Joint ventures of textile manufacturers teaming up with machinery suppliers to provide turnkey operation (Union Textil of France, Schaeffer Engineering of France).
- Government sponsored and controlled projects such as the one of the People's Republic of China and Tanzania.

The U.S. textile machinery industry has been hurt by the many government imposed policies and regulations, such as: OSHA and EPA edicts; new potential class-action type threats from product liability suits; antitrust limitations; disuaders as a result of the Foreign Corrupt Practices Act, etc.; research and development support is not comparable to those available from foreign governments. The West German government provides an outright cash grant equivalent to 25% of research and development project expenditures; conventional depreciation rates compared to those in foreign countries reduce cash flows and hinder U.S. investments; and Export-Import Bank incentives are not competitive, interest rates are non-competitive and paperwork is time-consuming and excessive.

MARKET ORGANIZATION COMPARISON

COUNTRY	PRODUCT RANGE	MARKETING ORGANIZATION	ADVANCED TECHNOLOGY	FINANCING	ACADEMIC PARTICIPATION	TRENDS
WEST GERMANY	BROAD - HIGH TECHNOLOGY, PRECISION ENGINEERING	SEPARATE, BUT CLOSE CONTACT (MANY BOARDS HAVE SAME MEMBERS) UNIONIMAT (100+ COMPANIES 115 REPS)	KNITTING, DYE, FINISH, PRINT TEXTURING FIBER PRODUCTION WIND/TWIST	CLOSE BANK CONTACT, LOW INTEREST WHEN PAID IN DM - 6% - 8%	VERY STRONG!	ACCELERATING TREND TO U.S. MANUFACTURING. CONSOLIDATION INTO LARGER COMPANIES: 25% R & D BY CASH GRANT FROM GOVERNMENT
SWITZERLAND	BROAD - "CADILLAC" TECHNOLOGY	SEPARATE BUT MAINTAIN CLOSE CONTACTS (INDUSTRIAL CLUB ETC.)	WEAVING SHORT STAPLE WARP PREP. EQUIPMENT CONTROLS	GUARANTEED STABLE EXCHANGE RATE IN B. CLOSE BANK CONTACT-LOW INTEREST WHEN PAID IN DM OR SF (6-8%)	SIGNIFICANT	ESTABLISH U.S. MANUFACTURING COMPANIES
ITALY	MODERATE - LAGGING IN TECHNOLOGY	E.N.I.: SAVIO COGNATEX, TENATEX N. SAN GIORGIO PATEC	WINDING LONG STAPLE WEAVING	VARIABLE & GOVERNMENT SUBSIDIES OF SIGNIFICANT MAGNITUDE	NOT AS STRONG	R & D. GOVERNMENT CASH GRANT TO SAVIO, NEW R & D FACILITY
JAPAN	SPECIALIZED CATEGORIES	HOLDING COMPANIES: MITSUBISHI, NISSAN, TORAY, ETC.	WEAVING WIND/TWIST TEXTURING KNITTING	TRADING CO./BANKS CLOSE RELATIONSHIPS	NOT AS STRONG	FAVOR LICENSING
COMMUNIST BLOC	BROAD TECHNOLOGY BASE, POOR MACHINERY CONSTRUCTION	STATE DIRECTED INVESTMENT	O.E. SPINNING SHUTTLELESS	LOW PAYMENT TERMS	NOT AS STRONG	UNPREDICTABLE

Additionally, Federal legislation has had an impact on the U.S. textile industry, customers of the machine manufacturers. Notable examples include compliance regulations which deal with: noise levels; effluent content; air quality (cotton dust controls and aspirated vapors to atmosphere); and chemical useage (TRIS for flammability, formaldehyde, and more).

Like the machinery companies, the U.S. textile companies suffer from low profitability. It is, therefore, not unrealistic to expect U.S. textile mills to be hard pressed to justify expenditures to comply with Government regulations which do not in themselves generate favorable rates of return on the capital employed. Any collateral improvement in productivity or reduction in unit cost coupled with meeting compliance levels would hasten the process and overcome real reluctance which now exists.

VII. MISCELLANEOUS CONSIDERATIONS

This section embraces several items that do not logically fit in previous sections, but which have a bearing on the reader's acceptance or rejection of the study's recommendations to improve the competitive position of the U.S. textile machinery industry.

The sources for these considerations include the various consultants and various ATMA members who have responded to the various "milestone" reports during the course of the study.

*Future capital investment decisions will be complicated by wide differences in textile machinery and process technology coupled with substantial price ranges.

In a previous section, there was reference to the wide range pricing of textile machinery for similar equipment. Additionally, there is considerable difference in the performance of like-equipment. For example, shuttleless looms show the magnitude of difference in selected looms to produce a limited product mix. A 120% difference can exist between the most costly and least costly loom to produce the limited product mix. There can be a 20% difference in yards per hour between the highest and lowest producing machines. In terms of per unit of output, capital costs can show a 100% difference, waste 60%, power cost 30% and so on between the highest and lowest cost per unit machines.

Textile machinery technology, considering its explosive development in recent years, has become quite complex and needs to be addressed today in context of the specific applications, mill operating conditions and alternatives.

It is no longer valid or acceptable to purchase machinery on the basis of simple investment calculations or justifications applicable to competitors. Full determination of the many technical and economic implications must be made and understood for the specific installation under consideration. It is necessary to recognize that textile machinery has three lives:

1. Wear Life - the actual number of years of serviceable operations assuming that preventive and routine maintenance procedures are followed. Many machines have and continue to provide 20-30 years of satisfactory operations.
2. Economic Life - the number of years to depreciate equipment, thus recognizing and facilitating the replenishment of machinery based on tax related write-off schedules. This can range from 8-15 years in the U.S. for various textile machinery categories.
3. Technology Life - the time span that a machine technology enjoys until a next generation has been introduced and becomes commercial. This results in technology obsolescence, which in recent years has occurred at an increasing rate, i.e., shorter time intervals.

The three lives described are unfortunately not in synchronization. They are operating under different time cycles and even these phases are changing and are not consistent.

*The relationship between government and industry today is perceived by industry as one of adversity. It stems from many things the government does as well as things it doesn't do:

Examples are as follows:

<u>DOES -</u>	Impose rules, regulations and compliance levels which are cost bearing and do not improve profits.
<u>DOESN'T DO -</u>	Provide financial and development assistance comparable to foreign governments which enhance the competitive position of foreign companies in the marketplace.

Additionally, many government policies emanating from various departments are contradictory and counterproductive:

EPA promotes strict air pollution controls re dust levels	Energy Department promotes shift from oil to air polluting coal
OSHA promotes lowest levels of exposure to hazardous substances	EPA uses more flexible standards for comparing risks against costs
Justice Department guides in compliance with Foreign Corrupt Practices Act	SEC promises no immunities from prosecution for practices Justice Department might permit

It is important to the future of the U.S. textile machinery industry to exploit overseas markets and expand export sales. Many government roadblocks exist which must be overcome. These include:

Export-Import Bank Restrictions	These limit the credit with which the U.S. can finance exports. Interest rates from leading institutions are non-competitive with overseas sources of money
Health, Safety and Environmental Regulations	Costs to comply with regulations make U.S. products less profitable compared with foreign competition
Antitrust Laws	Prohibit joint trading companies of U.S. corporations. Restrict activities of Webb-Pomerene
Human Rights Policy	Limits trade with some countries where textile machinery purchases are being made
Foreign Corrupt Practices Act	Limits fee payments to secure overseas contracts

In short, there are few true government-industry partnerships available for the textile machinery community.

*These partnerships do exist in competing nations. It is important to note that where strong ties do exist, for example: in West Germany, Italy, Japan and Czechoslovakia, the respective textile machinery industries are strong and growing. Combining both forces provides the necessary incentives and resources coupled with the reductions or even elimination of technical, market and financial barriers to promote and achieve a thriving industry.

*U.S. machinery customers are slow to embrace new technology. Consequently, U.S. mills are generally not as modern and up-to-date technologically as their overseas counterparts, at least in the industrialized nations. Many reasons appear to have contributed to this condition, among them the following:

1. The machines in place are durable and still have considerable wear life despite the fact that many machines have performed well beyond their economic lives.
2. The traditional low profits experienced by companies have retarded capital investments for new machinery/technology.
3. The anticipated requirement to direct capital to meet OSHA/EPA compliance regulations has diverted investment plans.
4. The current economic turnaround which has resulted in a new wave of marginal companies or bankruptcies among competitors, customers, customers' customers, suppliers, etc. in addition to the high costs of capital and inflation have materially caused a temporary slowdown in capital expenditures.
5. Government taxation policies are repressive.

*There are signals that the U.S. primary textile industry will reverse its course and embark on a massive modernization program. This is necessary to maintain its present cost effectiveness relative to industries in such major countries as West Germany, France, Benelux, etc.

*The need for energy-efficiency will be a major motivating and justifying factor to propel U.S. mill modernization. The ATMA has embarked on studies to deliver to the U.S. industry, new approaches to energy-efficient, more productive machinery.

*Our national security can be seriously affected if the U.S. textile industry must depend upon overseas sources to supply machinery for fabric ultimately destined for military applications. Likewise, the mills may be subjected to "at will" pricing practices, if U.S. machinery manufacturers fail.

*Question:

Given the recent government encouraged export commitment of the U.S. textile industry (a new development), are there now opportunities to offer completely integrated U.S. packages and systems to nations intent on developing textile capacities? For example, is it feasible for U.S. fiber producers, textile machinery manufacturers and textile mills to offer to customers their products and expertise in a unified fashion on foreign soil working with the active support of the U.S. Government?

Answer:

Yes, there are a number of machinery categories that would benefit from such a group marketing concept and in fact, in cases such steps have already been taken by the private sector. These areas include carpet manufacturing; short staple processing; bale-card; long staple processing; and fiber manufacturing.

In order for other areas to be included, it would probably be necessary for state-of-the-art to be advanced although some opportunity might exist in integrated weaving in developing countries.

This grouping concept might work better for given markets than for others. Linked to such an approach would be the need for an international business plan that carefully identified approach and target markets. To succeed, competitive financing programs would need to be developed.

*Question:

Given the intent of identified nations to develop their textile capacities, are there now opportunities to present in new ways U.S. textile machinery on U.S. soil to foreign (and U.S.) buyers? For example, could this study result in a plan whereby potential buyers (foreign or U.S.) would be conducted on a tour of the textile heartland? Imagine: Begin in the Northeast, where it all started on the Blackstone River, see textile machinery facilities, tour Old Sturbridge Village, move on to Washington, D.C. for meetings with Department of Commerce and Eximbank officials -

head South, stop in Charlotte, North Carolina, for tours of machinery firms and meetings with private banks - drive to Greenville, South Carolina, observing along the way hundreds of fiber plants, machinery firms and textile mills - arrive in Greenville to be presented private machinery demonstrations and technical presentations in Textile Hall, be impressed with the historic expertise of the industry at Textile Place (if it materializes), meet with academia at Clemson, Greenville Tech or other universities.

Answer:

While the study does not reveal opposition to such a plan, findings suggest there are a number of urgent problems which should receive priority before a "showcase" be fashioned. The industry has technology voids that are recognized internationally. Purchase of foreign equipment by U.S. mills has been substantial and it would not enhance the textile machinery industry image to display this fact. The wiser course of action might be to attack the core of the industry problem in each component sector and further the image through promotion of American technological innovation, as it is spurred by research and development support.

*The responsiveness of the U.S. textile machinery industry to this study while in progress, and the supportive interest exhibited by leading U.S. mill executives, provides a base of optimism. As the study was in progress, initial findings and suggestions obviously were under active consideration by U.S. machinery-makers.

PART TWOI. TECHNICAL AND MARKETING COMPARATIVE ASSESSMENTS AND STRATEGIES

The following pages set forth bottomline comparative assessments of textile machinery produced, worldwide, in 15 major categories.

Consideration of more than 60 machinery subcategories is embraced by these tables.

Outline format and brief commentary is provided for reader comfort and ready assimilation of this information.

For each category, as appropriate, the technology table represents state-of-the-art assessment, processing systems and technology commonly used, recent development and new advances, potential future development directions, five-year change profile, obsolescence and risk considerations, technical strategy considerations and comments.

For each category, as appropriate, the marketing table provides an "environment" statement which overviews the market background and expectations, and offers conclusions, suggested actions and comments.

1. Category: Fiber Production Machinery

Technical

State of Art: More large integrated companies getting into this sector, e.g., Rieter, Murata, Mackie, etc.
 Draw winding, twisting - close to 6,000 M/Min.
 Take up units - up to 2,000 M/Min.
 Combination spin/draw/wind
 Auto heat set systems replacing autoclave

Key Factors: Quality; speed; performance; reliability; and combination processing

Obsolescence: Overall category - low to medium; extruders - low; draw/wind/twist - medium; and stretch break - low

Conclusion: New technology in this area will affect other machine area developments.

Action: Monitor developments closely, increase liaison with mills, fiber producers. License processing equipment technology.

Comments: Increased play requirements affect product mix; spin/draw/wind/texture future development.

Marketing

Environment: Expansion market centered in Russia, P.R.C., Mexico and chiefly L.D.C.; major tendency is complete turnkey fiber plant; strong government licensing participation and often financing.

Conclusion: U.S. suppliers have minor role in process equipment market vs. German and Swiss companies; DuPont and Chemtex have strong posture in licensing/contracting; and financing is large factor in contract letting.

Action: Eximbank financing; improve information exchange between process suppliers and contractors; obtain license agreement on high technology equipment; and closely monitor by country plant installations.

Comments: Existing plants being relocated; likely contraction of capacity in E.E.C.; no major expansion planned in U.S. - short term.

2. Category: Texturizing

Technical

State of Art: U.S. companies generally have abdicated their once important leadership role; most foreign manufacturers have false twist machines in excess of 1,000 M/Min.; Murata nip system is typical of latest technology; air jet technology at similar speeds; friction disc now highly developed

Key Factors: Equipment has been designed for human engineering; automation-programmable texturing patterns important to quality and versatility

Obsolescence: Low - rate of technological development has been high; Major areas of potential risk - new technology for spunlike filament; expanded air jet technology

Conclusion: U.S. not a factor (except Enterprise in air jet); expanded role for U.S. manufacturers recommended for the future

Action: License; purchase; expanded R&D (concentration in air jet)

Comments: Spunlike filament yarn developments; air jet technology

Marketing

Environment: Modest growth '80 - '85; need spunlike filament

Conclusion: U.S. excluded from world market; U.S.T.M.I. will miss spun/filament future

Action: License foreign technology; conduct R&D on air systems

Comments: U.S. image tarnished by poor past performance; new filament development could be from U.S. fiber producer; foreign supplier likely in U.S. - market world overseas

3. Category: Short Staple - Bale Handling through Carding

Technical

- State of Art: Picker not obsolete for small lot runs; considerable amount of current technology for mills to evaluate in auto bale handling, chute feeds and cards; U.S. machine makers comparable to foreign competition except in new cards (behind) and rebuilt cards (ahead); emphasis on cleaning, tuft, and sliver control and high speeds; U.S. mills lacking 1 supplier bale through card system (although combination offered)
- Key Factors: OSHA dust requirements; O.E. fine dust problems; improved yarn quality; blend change versatility; too many variations in technology for mills to try all of them
- Obsolescence: Overall likelihood of current machinery being obsolete within five years is low; bale handling - low; opening and cleaning - low; chute feeds - low; cards - medium (speed, new process, etc.); can size - low
- Conclusion: A closer working relationship between suppliers and mills is required to marry advantages and technologies of one supplier to the other
- Action: Merge synergistic operations (separate companies); maintain current R&D levels as a minimum; increase R&D in card area
- Comments: Smaller duct sizes on chute feeds to simplify blend changes; new carding concepts will be looked at closely; card clothing adaptation to higher card speeds will be critical

Marketing

- Environment: U.S. replacement market; world new and replacement; U.S. mills: selective components; world mills: single sourcing; good growth '80 - '85
- Conclusion: R&D expenditure equal in U.S. re \$ sales; U.S. company needed to complete line - compete worldwide; U.S. overseas has not been strong - mainly agents
- Action: Pool R&D efforts; marketing effort overseas; government recruitment; world market data development; export award
- Comments: Small manufacturers awarded by U.S. mills; recent trend ev. U.S. for full system purchasing; technical advances could emanate from U.S. suppliers

4. Category: Short staple - Drawing through Spinning

Technical

- State of Art:** U.S. significantly behind in "latest technology" state-of-the-art developments, particularly in spinning, combing and drawing; rovematic, a known leader in the field for many years, has a strong more advanced Rieter competitor; U.S. has only one company manufacturing O.E. frames here, based on recent technology and none working in "fine count" technology; several new spinning concepts - living ring, traversless spinning taking slow hold; air vortex concept not catching on; SACM 100,000 O.E. speed
- Key Factors:** Long spinning frames reduce per position cost of on frame auto doffers; emphasis on quality, sophistication, automation; rotating ring and similar concepts should be monitored closely; Murata fine count O.E. (details sketchy)
- Obsolescence:** Overall - low obsolescence likelihood over next five years; drawing - low; combing - low (by machine), high (by process); roving - low (by machine), high (by process); ring spinning - low to medium; O.E. spinning - low
- Conclusion:** U.S. must make a major effort to catch up in this important technological area before irreparable damage is done vis-a-vis image as a whole, i.e., gap will widen further if nothing is done.
- Action:** License latest technology for gain with five years; invest substantially in R&D; sell existing technology on ROI basis
- Comments:** New ring geometry R&D could provide major breakthroughs; success of portable auto doffers (or lack of success) affect buy vs. modernize decisions; fine count O.E. developments a key vs. future ring vs. O.E. market share

Marketing

- Environment:** Drawing/roving/combing - minor activity; ring spinning - wide frames active mills rebuilding frames; open end spinning - steady worldwide overcapacity in U.S.; need open end in fine yarn
- Conclusion:** Foreign manufacturers U.S. based will grow; new OES technology likely to come from abroad; U.S. manufacturers lacking in marketing thrust worldwide
- Action:** Update ring technology to state of art; advance OE system to fine counts; improve product literature; establish market details worldwide; sponsor pure research of new items in development
- Comments:** Not any.

5. Category: Long staple - Bale through Spinning

Technical

State of Art: Rate of technological development has been relatively slow; wool cards at 1,000 KG/H and 3,000 MM wide; Warner & Swasey rotoglide concept; speeds up to 3,000 faller drops on gills; rubbing frames at 200M/Min+; very high draft spinning systems; auto doffer on spinning available (Cognetex); Repco/Selfil niche in market place; Coverspun new concept in market

Key Factors: Better yarn quality requirements for shuttleless looms; automation in this sector following short staple system

Obsolescence: Low - through rubbing frames; medium - in spinning (displacement by nonconventional systems)

Conclusion: U.S. is in fair position, especially in carpet yarn, but is not involved in any of the new unconventional developments on the horizon

Action: Increase rate of R&D spending; sell overseas basis of ROI and success rate in U.S.

Comments: SACM rotating ring; Dref developments (Fehrer) in carpet yarn; open end developments; tow to top processing

Marketing

Environment: Industry consolidation worldwide in woolen/worsted sector - largely a replacement market/spare parts; carpet market in U.S. saturated; carpet yarn spinning expanding worldwide: E.E.C./Far East/Mexico; world carpet yarn mills seek full product range supplier

Conclusion: U.S. companies have good technology, but are not strong exporter: marketing; domestic market weak; U.S. suppliers present no unitized product line; tow to top significant, especially in U.S.

Action: Establish export marketing group; conduct market research: world carpet spinning regional potential; provide incentive for R&D in long staple OE spinning

Comments: Open end spinning evolution likely by 1985

6. Category: Winding and Twisting

Technical

State of Art: U.S. has seriously abdicated this area; very large technology lag (do not have 2:1 twister); pneumatic threading, integrated air conditioning, and automatic yarn finishing on the running thread is now available on 2:1 twistors.

Key Factors: Quality, noise, sophistication and automation are key developmental factors; speeds continue to increase but only at modest rates; special effect twistors have a place in the market

Obsolescence: Ringtwisting - high; 2:1 twisting - low to medium; auto winding - low

Conclusion: A large number of foreign suppliers is strongly entrenched; will be difficult for U.S. to regain foothold

Action: License technology; invest R&D for long-term gains

Comments: No known U.S. efforts to bridge gap; likelihood gap will widen is high

Marketing

Environment: Active market for: automated winders, and two for one twistors

Conclusion: Foreign suppliers heavily infiltrated; would be hard to dislodge

Action: License arrangement; concentrate on displacement technology

Comments: Not any.

7. Category: Warp Preparation

Technical

State of Art: U.S. state-of-the-art fully competitive with foreign manufacturers; R&D continues at reasonably high levels; slashers have stressed energy savings through various means, high pressure squeeze, heat recovery, insulation/enclosures, etc.; warp preparation is being adapted to larger and double width beams; Barber-Colman multi heddle drawing-in

Key Factors: Energy costs of drying (slashing); improved quality, automation, sophistication in the forefront, e.g., Schlafhorst automatic knitting creel; increased electronic controls

Obsolescence: Slashing should be monitored closely for technological change in the next five years; warping - low; slashing - medium to high; warp preparation - low

Conclusion: While U.S. is in forefront of technological developments, there are many foreign companies at similar levels. R&D programs must be continued to maintain current positions

Action: Work closely with mills in developing hot melt and/or foam systems; develop systems to be compatible with warping through weave; don't let up on R&D efforts

Comments: Hot melt sizing important to monitor; foam technology for slashing; solvent sizing has peaked in interest (costly and environmental concerns)

Marketing

Environment: Replacement for modern looms; new systems - new sales

Conclusion: U.S. suppliers healthy/developing new technology; competition strong from Europe and Japan

Action: U.S. manufacturers need strengthen world sales organization - methods; R&D-support would accelerate success

Comments: Hot melt sizing on the horizon; foam technology forthcoming short-term; Uster to increase thrust in sales: Draw-in

8. Category: Weaving

Technical

- State of Art: U.S. perilously behind in an area experiencing major technological development, driven by increasing level of machinery purchasers; shuttleless looms jumped from mid-200's to mid-300's picks/min. in last year; air jets widely accepted, long delivery dates; wave sheds offer good future, but not near being commercial yet; needle type narrow fabric loom
- Key Factors: Air jet energy cost efficiency; ability of mills to run high capital cost equipment at high utilization; specialty loom (low versatility) vs. universal loom (high versatility)
- Obsolescence: Low - for current era of shuttleless looms; medium - for air jet (if energy-efficient air jets designed); high - for shuttle looms
- Conclusion: Worldwide trend to shuttleless will continue; U.S. presently losing significant ground worldwide to foreign makers; air jets will be a major future direction
- Action: Sell on ROI basis cost effective looms to LDC's; expend R&D funds on new state of the art developments; license or develop air jet competitor
- Comments: Wave shed loom - U.S. development (McGinley) should be watched; potential explosive high speed shuttleless developments on drawing board, also, air jet energy costs; combination knit/weave and other similar type developments

Marketing

- Environment: Strong growth - '85; air jets: very active; shuttleless looms of all types will continue to grow; machinery industry should consolidate; mills becoming type-cast
- Conclusion: If U.S. does not act quickly - will be too late for air jets; wave shed introduction unlikely in five years; suppliers will consolidate; price designed looms will gain in LDC's; total looms in place will decline significantly re shuttleless
- Action: R&D support required; license or develop air jet competitor; improve technical service; generate target list of countries of opportunity
- Comments: Looms for specific fabrics modernizing: i.e., terry, velvet; fabric development effort needed to expand air jet range; should monitor basic fabric categories for over capacity

9. Category: Knitting

Technical

State of Art: U.S. has completely abdicated knitting field; foreign makers continue high levels of technological development; flat knitting - electronic needle selection and machine control; circular knit - more feeds, higher speeds, Tompkins fleece machine; hosiery - extended patterning range fully fashion - full automation; warp knit - high speeds; multi-purpose/head embroidery/crocheting machines

Key Factors: Electronics, microprocessor controls; improved yarn feeder systems; speciality machines finding niche; retrofit of old equipment: increase automation, more patterning control, higher production

Obsolescence: Knitting is in the process of adding sophistication/automation obsolescence factor; flat - low; circular - low; hosiery - low; warp - medium; fully fashion - low

Conclusion: Very difficult to catch up in next five years; need know-how through licensing or R&D breakthrough; soft machine sales market a detriment

Action: Set up joint foreign/U.S. knit machines; manufacturing ventures here; support R&D

Comments: Continued low key on weft insertion for warp knit machines; combination knit/weave machines, e.g., Metap; specialty machines - terry warp knitting, etc.; spun like filaments will require new processing techniques

Marketing

Environment: Warp/single knit - growth '85; double knit/interlock - minor growth; specialty machinery key

Conclusion: Knit market very fragmented; foreign suppliers have long lead time in technology; market will accelerate when true spun like filament comes

Action: Incentive for foreigner to locate manufacturing in U.S.; license or agent for U.S.; support R&D in knit/woven technology

Comments: Not any.

10. Category: Nonwovens

Technical

- State of Art:** U.S. well represented in needlepunch, web forming; nonwoven in continuous slow development stage. Typical are: Angeitner; Asselin introduced 2,000 strokes/minute needle loom; Befama - Malivlies automatic nonwoven plant; Charvo's Maptex dual surface spray bond unit; Fleissner's complete range of finishing equipment; Tuftco's hydra shift needle program
- Key Factors:** Product developments; new adhesives (strength); breakdown of confidentiality (ITMA 79 opened up more to public)
- Obsolescence:** Overall - high (spun bond/wet lay); in dry lay system as such - low; web forming - medium; bonding - low to medium; curing - low; needlepunch - low; tufting - medium (bonded); finishing - low
- Conclusion:** U.S. manufacturers represent only a portion of nonwoven processes; nonwoven area/ technology will continue to evolve
- Action:** Increased R&D effort; joint development; license to supply complete lines
- Comments:** Regeneration of waste getting a lot of developmental attention; bonded systems vis-a-vis tufting; spun bonded; wet lay system developments

Marketing

- Environment:** Good growth through 1985; proprietary processing in hands of trade; some not patented; large sophisticated participants purchase piecemeal; small starters expect total package; web forming systems standardizing
- Conclusion:** Machine manufacturers concentrated in dry laid systems; very competitive market in complete systems worldwide; W. Germany has strong technical reputation; U.S. export sales effort not sufficiently directed - European customer service is strong
- Action:** No dramatic new system breakthrough; concentrate on update; need world market research information on markets and potential outlets; need R&D assistance or group development
- Comments:** European suppliers work much more in concert with each other; spunbonded a la Kimberly Clark is strong competitive threat; communist bloc is major purchaser of nonwovens - U.S. does not sell

11. Category: Dyeing

Technical

- State of Art: Raw stock/yarn dyeing - static market - machinery thrust: energy reduction, automation, retrofitting, increased controls (micro processors), U.S. manufacturers lead (e.g., Gaston County and Morton), little recent innovations. Piece Dyeing - Batch minor modifications to save energy and reduce liquor ratios and dye cycles. Jets successful for pressure dyeing poly wovens/knits. Continuous - U.S. mass production driven. Kusters swimming roll pad preferred. Chemical pads usually Morrison & Greenville as is steamers. Little new developments.
- Key Factors: Energy reduction; computer controlled color/dye formula matching and operating needs; new technology - foam/low temperature; product flexibility
- Obsolescence: High - should new dye chemistry and/or processing technology emerge old vintage machine must be replaced; medium - latest generation of commercial equipment
- Conclusion: U.S. textile machinery is current and competitive. In important sectors, U.S. maintains its leadership - batch dyeing of fibers yarns and fabrics
- Action: Maintain communications with technical personnel in industry and academia; maintain R&D at 5%; develop ROI performance criteria and sell on this basis
- Comments: 1. Ink jet dyeing (monotone and printed) in achieving low add-on dyes, non-saturated fabric substrates, low energy drying, controllability and reproducibility holds greatest potential for continuous dyeing in future. Commercialization would be revolutionary. 2. New dyestuff ranges and dye systems needed to replace antiquated products and procedures now used which are relatively energy wasteful.

Marketing

- Environment: Package dyeing-overcapacity through 1985; jet dyeing - beck replacement: steady; continuous - stable in U.S./growth-world; microprocessors growing in use for system control; complete system purchasing is desirable; energy reduction critical element
- Conclusion: U.S. companies have good reputation and are recognized competitors; European and Japanese are increasing R&D effort in new technology; foam dyeing is likely to emerge as strong technology; U.S. companies must expand export sales exposure and information collection
- Action: Establish stronger working knowledge of world market; expand R&D effort on foam technology; cooperate more closely with other U.S. companies providing component parts

Comments: European manufacturers likely to expand U.S. manufacturing bases; attack domestic manufacturers on the basis of eroding market share, possibly economically; Kuster has foam carpet dye machines in commercial mills for trials.

12. Category: Wet Finishing

Technical

State of Art: Low add on finish applicators - Gaston County/UCC. FFT applicators. UMM or Triatex minimum application kiss roll, Farmer Norton's misting technique; unabsorbed water removal before drying - Roberto Rolls or Perkins prestech, Kleinfewers/Greenville Hydrofuga water extractor; contact tenter drying - Marshall and Williams or Kenyon's low heated steam drying in development, microwave technology; efficient use of wash waters, recycling Morrison's horizontal washer; microprocessors (or increased process control and reproductivity)

Key Factors: Retrofit existing equipment; energy reduction/higher productivity; U.S. machinery - reliable/easy maintenance; process controls and product responsibility

Obsolescence: Medium-latest vintage energy-efficient high throughput wide equipment; high - should ink jet technology prove commercially successful and profitable

Conclusion: U.S. generally competitive; must cater to individual needs by modifying machines; machine controllability and product reproducibility are essential

Action: Energy-efficient machinery; increase product lines/provide model variations; enter the retrofit market; develop ROI performance criteria

Comments: Overseas manufacturers are gaining in reputation. Establishing U.S. base operations with intent to assemble now or in the future. U.S. manufacturers with some exceptions are not considered innovative. Energy-efficiency, higher throughputs and more flexibility are hallmarks for new development directions. Old industry hallmarks such as Mount Hope, James Hunter, etc. no longer factors, diminishes image of U.S. machine industry.

Marketing

Environment: Strongly effected by energy cost; high capital intensity; smaller finishers need retrofit/rebuilding service; foam technology/low add units emerging - soon commercial; strong world market through 1985 - expansion

Conclusion: U.S. suppliers up-to-date or advanced in technology. Cater to large specialized mills - European suppliers geared to flexibility; some U.S. suppliers show some apathy to export sales

Action: . Improve Eximbank financing; help identify sales opportunities abroad; provide incentive to increase R&D expenditures; improve product literature

Comments: Low add-on technology emerging - "Robert Roller" "Triatex"; FFT applicator from Gaston County commercializing

13. Category: Dry Finishing

Technical

State of Art: Little change over years and little new developments anticipated; calendering - woven fabrics Perkins leader; Ramisch best European competitor; Knit fabrics - calenders being integrated with multi-purpose ranges; napping/sueding/brushing - Gessner Ultramatic strong position; shearing-Curtis & Marble new carpet shear excellent comparable to Sellers (Germany); compressive shrinking - sanferize remains leader; decatizing-dominated by Gessner

Key Factors: Controllability and reproducibility; market demand is small; machines maintained and well made; increased productivity

Obsolescence: Considerable fully depreciated machinery in place, but still servicable and useful; low risk of obsolescence

Conclusion: U.S. machine makers hold competitive edge

Action: Direct all new developments to encompass - energy-efficiency; high throughputs; controlled machine and process condition; reproducible fabric esthetics

Comments: No major undercurrents perceived. Dry finishing produces "specialty" effects. Little likelihood of major technical breakthroughs. Expect increased emphasis on higher throughput. New systems likely to be added, i.e., Polesher/Tigeryer

Marketing

Environment: Modest growth worldwide; process shifts with fashion; suppliers broadening product lines

Conclusion: U.S. suppliers are strong internationally; trend is to computerization for developed countries; for lesser developed countries simplified/lower cost machines have been designed

Action: Improve flexibility in financing; strengthen group sales; R&D support; computer options should be made available

Comments: Fabric polishing will be important; foreign suppliers concentrating on market research

14. Category: Printing

Technical

State of Art: Traditional printing systems in place:
 A) Continuous - Copper roller printing declining. Combination copper/screen introduced by Sauressig, Farmer Norton. Rotary screen popular - Stork, Zimmer, Buser. Heat transfer - big build up in late 70's, then decline.
 B) Batch - Flat bed screen - automated, deskilling operations Heat transfer (printed paper) in domain of retail trade (decals).
 C) Carpet printing - jet printing - Millitron, Otting (U.S.) and Titen (Australia), Kuster/TAK, + Stalward rotary printing.

Key Factors: U.S. textile mills - replacement market, excess capacity; equipment widening to handle 72" fabrics in apparel; technical service

Obsolescence: High - if and when jet printing becomes commercial; medium - rotary screen printing

Conclusion: Should concentrate on new printing technologies

Action: Support development and commercialization of ink jet technology

Comments: Ink jet technology bears considerable attention. This may necessitate new dye ranges, pigments, dissolving media, and formulation.

Marketing

Environment: Cyclical, style related market; transfer market is too confined; growth in print demand likely pre: 1985; consolidation of printers to continue; European machine producers have strong world recognition

Conclusion: Transfer market largely overcapacity; new technology is needed for U.S. to establish a role both domestically and abroad; print demand is likely to have a cycle peak before 1985, U.S. machine suppliers are absent

Action: Develop air jet computer control printer for textile application; monitor pre-programming, print pattern for precise cutting posn.; assist R&D efforts of Otting and Dayton Tinker; work more closely with dye and chemical innovators

Comments: Japanese working on new system technology - reported close foam printing is being explored by printers - shows promise

15. Category: Auxiliary Equipment

Technical

State of Art: U.S. well represented across the board in auxiliaries - however, some formidable competition. Typical advances include: Rubbermaid cans; Forte instant synthetic fiber measurement; Ford fiber blend analyzer (Heal and Co.); Artos/Famatex electronic computer control; Uster's Autosorter II; Max Spaleck's total line of material handling equipment

Key Factors: Performance; reduce human error; automation; analyses; systems management

Obsolescence: Overall risk of obsolescence higher than most areas. Rings - high; staples - loom cleaners, etc. - low; measurement/sensing - medium; auxiliaries - filters, etc. - low; systems - medium; process carriers - medium; misc. - medium

Conclusion: Important area - can be profitable; competition keen; sell on ROI, quality, performance basis

Action: Continue R&D; work hand in hand with fiber producers, mills, dye/chemical manufacturers, machine makers, etc. to sense needs

Comments: Large machinery manufacturers offering total system including auxiliaries

Marketing

Environment: Capital goods trend to housing own auxiliaries; packages changing form/size; loom parts more varied/sophisticated, wider; trend to precision controls

Conclusion: Many companies vulnerable; need new product direction; face financing competition from foreign companies; many find export opportunity expanding

Action: Strengthen capital goods manufacturing sector; aid in long-term planning; advise on agent selection for export marketing; inform on export opportunities and new technology; provide R&D incentive; allow quicker depreciation schedule; ease foreign trade regulations

Comments: Open end breakthrough in fine yarns could impact many; monitor ring spinning advances; pursue arrangements with foreign machine suppliers

II. CONCLUSIONS RELATED TO COMPETITIVE ASSESSMENTS

The following conclusions were suggested during the course of the study. There are six categories as follows (number of conclusions in parenthesis):

1. Product Technology (5)
2. Image (3)
3. Industry Structure (3)
4. Management (2)
5. Government Imposed Liabilities (1)
6. Marketing (2)

Product Technology

Conclusion One: U.S. "State of Art" textile machine technology is perilously behind foreign makers (trend must be reversed; otherwise threat to national security)

Contributing Factors: Industry has abdicated leadership role in technological development; concurrently spare parts business mushroomed as highly profitable business; did not foresee rapidity of change in technology; failed to recognize importance of R&D, 3-5 year minimum R&D timespan inception to commercialization; potential threat also exists from large U.S. non-textile equipment producers to invade machinery mass market.

Conclusion Two: U.S. patents owned by U.S. firms and/or individuals decreasing as a % of total patents applied for

Contributing Factors: U.S. firms do not encourage communication with inventors; U.S. applications are in the minority and continue to decrease; West German, Swiss and Japanese patents make up to 2/3 of those applied for; U.S. firms do not take advantage of patents on fringes of industry that might have application

Conclusion Three: Product developments have not kept pace with overseas competitors

Contributing Factors: The % spent (of sales) on R&D is in a direct relationship to profitability and success; European firms spend more on R&D - 5-8%; from our investigations there is a direct relationship to success between those firms with high R&D expenditures vs. lack of success with those with low R&D expenditures

Conclusion Four: Future of industry technological development imperiled by lack of textile engineering design graduates

Contributing Factors: Industry has not generated profits to afford R&D and/or attract them; graduates from special programs combining textiles and design went to firms outside textile machinery field upon graduation (higher salary); lack of graduates throughout the world

Conclusion Five: Finding right technology for low wage country

Contributing Factors: Some low wage countries feel they need the best, most sophisticated equipment to sell their textile goods in export markets (from quality and P.R. point of view) when in fact they would be best off with less automated, more labor intensive lower cost equipment from a total cost viewpoint; the above hurts U.S. in many cases (because of technology lag)

Image

Conclusion One: International image of U.S. industry as a whole poor (although some specific companies are excellently regarded)

Contributing Factors: Lack of a total industry - cannot today supply all equipment on a bid (example: 2:1 twisting); rely on ineffective agents (representing dozens of firms in some instances); some "good" firms not that interested in export; brochures not comparable to European counterparts; communication deliveries and service have been poor; comparative excellence of Swiss/German sales/training/service

Conclusion Two: Greenville/Textile Hall-ATMA Schism harmful

Contributing Factors: Involvement of any major potential purchasers on opposite sides is negative as far as U.S. machinery industry sales domestically are concerned; concurrently helps machine companies (foreign) who are not involved in dispute; had drawn-in foreign machinery manufacturers and trade association

Conclusion Three: U.S. recognized as more insular than international

Contributing Factors: Foreign competition is functioning as truly international market oriented companies; U.S. industry still retains an insular posture, U.S. is geared to mass production

Industry Structure

Conclusion One: Invasion of foreign based firms locating subsidiaries here

Contributing Factors: Foreign based companies take advantage of U.S. technological lag as firms continue to fill void here; U.S. jobs are lost as these firms manufacture only a few parts here (or do just the assembly), also export potential is lost as well; by being closer to the customer, they have same advantage of U.S. firms and in many respects take more advantage as well; can take advantage of participating as a U.S. supplier on U.S.-sponsored government projects (USAID)

Conclusion Two: Conglomerate mergers (history-wise) have not been beneficial to textile machinery industry

Contributing Factors: Conglomerate acquisitions mostly were detrimental to the growth of the acquired firms and the industry as a whole (for varying reasons) such as more profitable investment elsewhere; opportunity to benefit from the support of the conglomerate (financially) was never realized; conglomerates did not support (in general) heavy R&D programs of acquired firm

Conclusion Three: No longer able to supply total primary textile mill needs

Contributing Factors: No current large firm identification with U.S. machinery industry (Saco Lowell gradually being identified with Platt); size (sales volume) of firms substantially less than European and Japanese counterparts; far too fragmented; conglomeration has hurt U.S. textile machinery image; some major capital goods sectors totally abdicated by U.S. industry; small entrepreneurs have a place but can only flourish if there are a number of healthy major producers

Management

Conclusion One: Attitude to change

Contributing Factors: Not in tune with mills' needs and their competitive pressures; do not go out of way to encourage or work with inventors; do not aggressively seek out exports; not willing to spend R&D \$; unwillingness to address "failsafe" machine operation

Conclusion Two: Lack of adequate strategic and tactical business planning

Contributing Factors: Degree of management competence and philosophy (long-range planning, etc.) bears a direct relationship to success; there is a direct relationship to success between those firms with competent, and well thought-out and followed business plans and talking of success between those who pay only lip service to planning

Government Imposed Liabilities

Conclusion One: American textile machine industry disadvantaged by government policies and regulations

Contribution Factors: Interest rates, Export-Import too high, terms too long, paperwork excessive; R&D support is not comparable to other governments; conventional depreciation (slow) has hindered U.S. investment; antitrust limitations; product liability a new threat; OSHA/EPA edicts; disuaders (Corrupt Practices Act, etc.)

Marketing

Conclusion One: Lack of service/spare parts major factor in decline

Contributing Factors: Problem both in U.S. and overseas, a significant number of firms (over 40%) create a poor overall image; concurrently foreign firms (for the most part) pride themselves in service

Conclusion Two: U.S. overseas representation not "street-wise"

Contributing Factors: Rely on ineffective agents (representing dozens of firms in some instances) or whirlwind tours of U.S. personnel; don't listen to advice and overseas needs; poor support and communication with agents; do not take advantage of turnkey possibilities; AMATEX is deterrent more often than asset - counterproductive; product lines (from sales viewpoint) not keyed to foreign customer demands - shorter runs, etc.; foreign agents unable to make on spot decisions - extensive delays; poor feedback of market and competitive intelligence

III. RECOMMENDATIONS TO IMPROVE DOMESTIC AND FOREIGN MARKETS

The study brought out recommendations which may be practical and achievable. Before any of these recommendations are attempted, it is suggested that first, overall business plans are examined and/or developed to ensure that all fundamental technical, marketing, manufacturing, human resources, administrative and financial elements are in order.

The appearance of these recommendations is not to imply that all U.S. textile machinery firms are weak in the areas addressed. Thus, we are dealing within a situational context.

The four main areas of recommendations are: General, Machinery Companies, ATMA and U.S. Government.

Each of the four areas is divided into actions directed at domestic and foreign markets.

General

1. Total commitments from individual participating companies, labor interests, the ATMA and appropriate U.S. Government agencies are required to enable the recovery of the U.S. textile machinery industry to its previously held position of leadership and reputation.

Band-aid patchwork or partial reinforcement of some of the recommendations herein will not achieve the envisioned results.

2. To the degree that it generally exists, the adversary relationship between government and business in the U.S. is detrimental to the future of the U.S. textile machinery industry. Competitive pressures emanating overseas from combined partnerships of government and private enterprise are real, intense and difficult, if not impossible, to defuse and overcome.

The results of such relationships in West Germany, Italy and Japan, as well as other countries, are a testimonial to the needs for complementary and supportive assistance programs.

3. The following are directed at the ATMA and its members:

- a) "Partnerships" with government agencies should be sought. Only in this way can the needs and interests of industry be understood and met. ATMA has some notable success stories in this area, but the industry's predicament demands more.
- b) The ATMA must continue to act as a strong spokesman for the textile machinery industry. It must solicit and encourage greater understanding of government agencies and personnel as well as member companies of each others interests and needs. ATMA should be encouraged to continue its efforts to be kept informed of government plans and programs which may have either beneficial or detrimental effects on industry members.

- c) The ATMA should increase its contacts and relationships with other U.S. trade associations both within and outside the textile industry. This would promote better relationships among industry groups and serve to keep the machinery sector apprised of developments in related areas which could impact on equipment.

In addition to existing relationships with CEMATEX, overseas trade contacts should also be maintained with the International Textile Manufacturers Federation (ITMF), a global international trade association for the world's textile industries. ITMF is headquartered in Zurich, Switzerland and has about 31 member associations and eight associate members. U.S. representatives are the ATMI and National Cotton Council of America, respectively.

4. Initiate an immediate program of "catch-up" technology via licensing and joint venture programs. Specific machine categories with important short-term benefits and implications include: yarn processing (texturing, winding, twisting), air-jet weaving, filament spun-enhancing knit, knitting, weaving, printing and OE spinning.

5. Initiate research and development projects to restore vacated machine categories as to the U.S. camp.

Hire on qualified and experienced machine design engineers with expertise in textile fiber, yarn fabric and process technologies.

6. Strengthen domestic marketing image:

- a) Establish better mill relations. Serve customer needs via technical service and product development programs.
- b) Improve technical literature and brochures. Simplify and direct to customer.
- c) Strengthen sales leverage by combining related equipment (sequential) to promote synergy. Cooperate more closely with other machine suppliers to serve customers' overall needs.
- d) Encourage mill trials and in-plant technical prove out programs. Exert control and require monitoring role for such trials.

7. Strengthen international marketing:

- a) Become more aware of opportunities in specific countries via:
 - marketing research
 - market planning of target accounts and establishment of overseas technical sales presence

- strategic business planning
 - . return on investment justifications
 - . equipment designed for customer needs
 - . strong promotion of U.S. equipment durability and performance
 - . financial incentives and assistance
- b) Postulate export sales programs and commit resources to serve export customers as if they were domestic customers
- 8. Develop this study's contents into an industry "Business Plan" to direct and guide future coordinated and collective activities and efforts. The plan should set forth specific industry objectives and targets, identify the competitive threats and opportunities, the appropriate marketing/technical strategies and the attendant action programs to achieve the stated goals.
- 9. Solicit U.S. Government support and commitment to the future health and welfare of the U.S. textile machinery industry by supporting proposed legislative bills under consideration. Specific areas where assistance should be sought include:
 - a) Tax incentives and/or grants to textile machine manufacturers to spur research and development
 - b) Tax incentives to promote purchases by domestic and foreign textile mills of U.S.-made and assembled machinery
 - c) Enactment of various proposed bills before the Senate and House of Representatives relating to capital formation, small business export expansion, export trading companies and associations, R&D tax credits, and regulatory reform
 - d) Regulatory reform procedures - various bills to simplify processes, eliminate duplications and inconsistent rules and regulations and reduce paperwork.
- 10. Encourage U.S. Government trade assistance by increasing embassy/consulate support activity in selected foreign countries to promote more trade missions, develop feedback system of business intelligence for U.S. companies, and expand role of commercial attache who should have some experience in and appreciation of textile technology and business.
- 11. Seek government support and incentives to facilitate metrification of U.S. textile machinery industry.
- 12. Through the aegis of ATMA, develop plans and promote overseas group marketing efforts of members to facilitate the combining of non-competitive equipment in total installation situations.

Machinery Companies

- *D-1 License "Catch-Up" technology as quickly as possible. (C) *
- Main Technical Objectives are directed towards:
deskilled operations, auto controls (reliable), reduced
maintenance, fewer wearout parts, less capital intensity,
less energy and operating costs, simplistic design - cosmetic
esthetics
- D-2 Build up R&D commitment once licensing of current (C) *
- technology is complete (A)
- D-3 Hire on qualified machine design engineers and textile (C) (A)
- fiber, yarn, fabric and process technologists
- D-4 Improve dialogue with mills - (C) (A)
- Through technical forums and other vehicles
Develop selected mill trial programs to prove
out new processes and equipment technology
Need close day-to-day contact with mill problems
- D-5 Improve dialogue with fiber producers and chemical dyestuff (C) (A)
- manufacturers by establishment of a once/year technical
forum. Allow patent holders and "entrepreneurs" to reach
entire ATMA technical membership at forums. Marry fiber
and machinery technology developments
- D-6 Centralize certain joint development R&D activities (C) (A)
- through ATMA either separately or through universities
where feasible
- D-7 Prove out all new major technical developments in mill (C)
- scale programs before classifying machinery as
commercial. Wherever possible, intermediate developments
should be carried to full development to avoid interim
generation equipment and early obsolescence
- D-8 Encourage joint venture arrangements. Auxiliary firms (A)
- should work with foreign firms to be suppliers of
auxiliary equipment
- D-9 Develop overall business plans, including sales (C) (A)
- support, service, parts planning, start up, management
services, etc.
- D-10 Orient all future sales programs to return on investment (C) (A)
- performance benefits in concert with technology
developments
- *(D) Pertinent to Domestic Markets
*(C) Pertinent to Capital Equipment Firms
*(A) Pertinent to Auxiliary Equipment Firms

- D-11 Improve brochures/public relations efforts (C) (A)
- D-12 Discourage bills which would redirect machinery related R&D tax support to sources other than the primary manufacturers (C) (A)
- D-13 Support government accelerated depreciation bills (C) (A)
- *F-1 Key-in on selected foreign countries for both expansion and modernization. Mount effort to make these countries predominantly U.S. machinery. Mount strong service/parts programs in these countries (C) (A)
- F-2 Consider and expand export sales through joint ventures such as vertical integration of process equipment (C) (A)
- F-3 Selling philosophy should emphasize cost/performance/ simplicity/ROI. Promote lower cost capital equipment for the first half of the 80's. Don't chase rapidly changing technology (C)
- F-4 Pricing is consistently inconsistent. Pricing must be variable for each job with competition, country, company taken into account. Firms would be advised to quote flexibly. Develop pricing policies to insure that overall price/unit forecasts are maintained, and projected margins are achieved (C) (A)
- F-5 Upgrade overseas agents and their participatory roles. Eliminate all reps and agents selling competitive equipment. Train personnel in technical sales with a financial orientation to improve competitive effectiveness and customer image (C)
- F-6 Provide identical service to foreign customers as rendered to U.S. customers. Included are spare parts availability, close proximity warehouse locations, overnight service, technical assistance to solve process problems, training centers (C) (A)
- F-7 Pool experience in foreign markets in terms of guarantees, deliveries and collection problems so contracts can be made protective with clout (C) (A)
- F-8 Consider more "gratis" service calls to keep in tune with mounting complaints (similar to foreign competitors) (C)
- F-9 Modify product lines where feasible to suit shorter run overseas markets which require more flexibility. Be prepared to modify equipment to customer's needs (C)

*(D) Pertinent to Domestic Markets

*(C) Pertinent to Capital Equipment Firms

*(A) Pertinent to Auxiliary Equipment Firms

*(F) Pertinent to Foreign Markets

- F-10 Make U.S. machinery known to all existing turnkey operators. Possibilities include foreign and U.S. construction and engineering firms. Also, banking and financial institutions (C)
- F-11 Support government legislation relative to National Export Trade Act 1980 which will improve EximBank situation and Webb-Pomerene companies (AMATEX) (C) (A)

American Textile Machinery Association

- D-14 Improve dialogue with Textile Hall, settle ATME-I dispute. Have all-products ATME-I on four year cycle which alternates every two years with ITMA
- D-15 ATMA should establish a technical information bureau to monitor and critique foreign-based patents and technology developments in dyes, chemicals and auxiliaries, textile fibers, textile machinery: capital goods and auxiliary (C) (A)
- D-16 Expand membership to include the "non-traditional" textile machinery companies and solicit as members foreign-owned textile machinery manufacturers who assemble in U.S.A. Encourage U.S. manufacturing operations. Create a membership category for such companies (C) (A)
- D-17 Encourage ATMA members to support AMATEX concept revised under proposed change in Webb-Pomerene Act (C) (A)
- D-18 Monitor import penetration for national security reasons; where no domestic supplier, government should set limitations. Encourage U.S. self-sufficiency (C)
- D-19 Maintain strong ties with U.S. Government and related agencies and personnel to ensure that the U.S. textile machinery industry benefits fully from all available support funds and programs; continuing dialogue and liaison with appropriate members of Congress and the administrative branch. Ensure that voice of industry is heard when in support or in opposition to pending legislation; assistance programs to encourage research and development, tax and credit incentives, trade and tariff rules and regulations favorable to industry, retooling of industry to facilitate metrification; and funded programs involving textile machinery purchases for projects sponsored by: World Bank, Unido

- *(D) Pertinent to Domestic Markets
 *(C) Pertinent to Capital Equipment Firms
 *(A) Pertinent to Auxiliary Equipment Firms
 *(F) Pertinent to Foreign Markets

- F-12 Continue to support government legislation relative to National Export Trade Act 1980 which will improve Eximbank situation and Webb-Pomerene companies (AMATEX) (C) (A)
- F-13 ATMA should expand a public relations program to defuse negative images related to conflict with Textile Hall, and U.S. machinery vintage, and build up technological breakthroughs, availability of competitive financing, machinery cost/performance benefits and competitive advantages, and advantages of U.S. machinery coupled with advanced management technique (C)
- F-14 Reclassify ATMA member product directory into capital goods/auxiliary firms. Brochure cross-index should be reorganized so that all companies are not all things to all people (C) (A)
- F-15 ATMA should make available to membership lists of equipment, age of equipment, type of equipment, companies, product, decision-makers by country on a continuing up-to-date basis (C) (A)
- F-16 ATMA should continue to develop more U.S. machinery visibility overseas at ITMA, other exhibitions, institutional trade advertising and public relations programs. Announce major sales in foreign publications (C)
- F-17 ATMA should develop a screening resource for evaluating performance and effectiveness of "agents," for member firms. Auxiliary firms should pool resources for overseas sales agents (C) (A)
- F-18 Strengthen feedback of foreign textile opportunity intelligence through ongoing ATMA/foreign consulate dialogue. Build up case histories of jobs lost because of foreign government support (C)

U.S. Government

- D-20 Develop tax incentives and/or government grants to textile-machinery manufacturers to spur research and development. These should be competitive with programs now available in countries such as Germany and Italy
- D-21 Develop tax incentives to encourage and favor purchase of U.S. made and assembled textile machinery
- D-22 Recommend government tax credits to encourage long-term employment of qualified textile machine design engineers. Hire foreign if domestic not available
- *(D) Pertinent to Domestic Markets
- *(C) Pertinent to Capital Equipment Firms
- *(A) Pertinent to Auxiliary Equipment Firms
- *(F) Pertinent to Foreign Markets

- D-23 Do not approve proposed legislation which would encourage textile mills to receive tax benefits for research and development donations to universities, but rather provide tax incentives for mills to work directly with the machinery builders
- D-24 Enact proposed legislation on the 10-5-3 depreciation rule
- D-25 Provide tax incentives to assist, and encourage and defray R&D costs for textile machinery developments aimed at meeting OSHA/EPA compliance levels and reduced consumption of energy
- F-19 Enact proposed National Export Trade Act of 1980, particularly referring to Eximbank proposed changes to provide competitive interest rates, and Webb-Pomerene Act to relax anti-trust implications and allow AMATEX reformation
- F-20 Reduce paperwork and red tape in procedure to consummate sales agreements with foreign buyers (C) (A)
- F-21 Support export programs through incentives and policies which enable U.S. manufacturers to sell competitively and at a profit commensurate with U.S. performance (C) (A)
- F-22 Increase Embassy/Consulate support activity in selected foreign countries by means such as: further promote trade missions and increase number where prudent; develop feedback system of business intelligence for U.S.-based sources; and expand role of Commercial Attache who should have a technical business orientation in selected industry sectors (C) (A)

*(D) Pertinent to Domestic Markets

*(C) Pertinent to Capital Equipment Firms

*(A) Pertinent to Auxiliary Equipment Firms

*(F) Pertinent to Foreign Markets

PART THREEI. MARKET IDENTIFICATION

The substantive results of identifying potential foreign buyers of U.S. textile machinery are presented in these pages. More than 1,200 potential mill customers (in countries previously listed in Part One) were identified and assessed. Assessment criteria included productive capacity and potential need in short-term.

Any firm contemplating market thrust to these particular countries should first thoroughly review and categorize mill prospects. ATMA is willing to advise of known mills on a case-by-case basis.

By major machinery product category, there follows countries with the most sales potential (primary) and significant potential (secondary).

Most Promising Markets1. Filament Yarn Manufacturing

	<u>PRIMARY</u>	<u>SECONDARY</u>
<u>AFRICA</u>	EGYPT	IVORY COAST SOUTH AFRICA
<u>LATIN AND CENTRAL AMERICA</u>	ARGENTINA MEXICO	BRAZIL CHILE COLOMBIA VENEZUELA
<u>EASTERN EUROPE</u>	USSR	BULGARIA E. GERMANY YUGOSLAVIA
<u>ASIA</u>	CHINA PAKISTAN PHILIPPINES TAIWAN	SOUTH KOREA THAILAND TURKEY

2. Short Staple - Cards

<u>AFRICA</u>	ALGERIA EGYPT SUDAN	NIGERIA SOUTH AFRICA
<u>LATIN AND CENTRAL AMERICA</u>	ARGENTINA COLOMBIA MEXICO	BRAZIL CHILE PERU
<u>EASTERN EUROPE</u>	YUGOSLAVIA	USSR
<u>ASIA</u>	PAKISTAN SOUTH KOREA TAIWAN TURKEY BANGLADESH SYRIA	CHINA INDONESIA MALAYSIA PHILIPPINES THAILAND

3. Short Staple - Ring Spinning

	<u>PRIMARY</u>	<u>SECONDARY</u>
<u>AFRICA</u>	ALGERIA EGYPT SUDAN	MOROCCO NIGERIA SOUTH AFRICA
<u>LATIN AND CENTRAL AMERICA</u>	ARGENTINA MEXICO	BRAZIL CHILE COLOMBIA ECUADOR PERU
<u>EASTERN EUROPE</u>		YUGOSLAVIA USSR
<u>ASIA</u>	PAKISTAN PHILIPPINES SOUTH KOREA TAIWAN THAILAND TURKEY BANGLADESH SYRIA	CHINA INDONESIA HONG KONG MALAYSIA

4. Short Staple - Open End

<u>AFRICA</u>	ALGERIA SUDAN	EGYPT MOROCCO NIGERIA SOUTH AFRICA
<u>LATIN AND CENTRAL AMERICA</u>	COLOMBIA MEXICO	ARGENTINA BRAZIL PERU
<u>EASTERN EUROPE</u>	-	-
<u>ASIA</u>	CHINA PAKISTAN TAIWAN TURKEY	ISRAEL MALAYSIA PHILIPPINES SOUTH KOREA THAILAND

5. Long Staple

<u>AFRICA</u>	ALGERIA	EGYPT SOUTH AFRICA
<u>LATIN AND CENTRAL AMERICA</u>	ARGENTINA MEXICO VENEZUELA	BOLIVIA BRAZIL CHILE COLOMBIA ECUADOR
<u>EASTERN EUROPE</u>	EAST GERMANY HUNGARY YUGOSLAVIA	BULGARIA POLAND USSR

5. Long Staple continued

	<u>PRIMARY</u>	<u>SECONDARY</u>
<u>ASIA</u>	INDIA (spinning only) MALAYSIA PAKISTAN SOUTH KOREA TURKEY	CHINA PHILIPPINES TAIWAN

6. Yarn Processing - Twisting and Winding

<u>AFRICA</u>	SOUTH AFRICA (T&W) SUDAN (W)	ALGERIA (T&W) MOROCCO (T) NIGERIA (T&W) SUDAN (T)
<u>LATIN AND CENTRAL AMERICA</u>	BRAZIL (W) COLOMBIA (T&W) MEXICO (T&W)	ARGENTINA (T&W) BRAZIL (T) CHILE (T&W) ECUADOR (T&W) PERU (T&W)
<u>EASTERN EUROPE</u>	BULGARIA (T&W) ROMANIA (T&W) USSR (T&W)	EAST GERMANY (T&W) HUNGARY (T&W) POLAND (T&W) YUGOSLAVIA (T&W)
<u>ASIA</u>	CHINA (T&W) INDONESIA (T) PAKISTAN (T&W) PHILIPPINES (T&W) SOUTH KOREA (T&W) THAILAND (T&W) TURKEY (T&W)	MALAYSIA (T&W) TAIWAN (T&W) BANGLADESH (T&W) SYRIA (T&W)

(T - Twisting)
(W - Winding)

7. Warp Preparation

	<u>PRIMARY</u>	<u>SECONDARY</u>
<u>AFRICA</u>	EGYPT SUDAN	ALGERIA MOROCCO NIGERIA SOUTH AFRICA TANZANIA
<u>LATIN AND CENTRAL AMERICA</u>	BRAZIL MEXICO	COLOMBIA PERU
<u>EASTERN EUROPE</u>	POLAND ROMANIA	E. GERMANY HUNGARY YUGOSLAVIA
<u>ASIA</u>	INDONESIA PAKISTAN SOUTH KOREA TURKEY SYRIA	PHILIPPINES TAIWAN THAILAND BANGLADESH

8. Weaving

	<u>SHUTTLE</u>		<u>SHUTTLELESS</u>	
	<u>PRIMARY</u>	<u>SECONDARY</u>	<u>PRIMARY</u>	<u>SECONDARY</u>
<u>AFRICA</u>	EGYPT NIGERIA SUDAN	ALGERIA S. AFRICA TANZANIA	EGYPT NIGERIA	ALGERIA MOROCCO S. AFRICA SUDAN
<u>SOUTH AMERICA</u>	BRAZIL	ARGENTINA COLOMBIA MEXICO PERU	BRAZIL MEXICO	ARGENTINA COLOMBIA PERU
<u>EASTERN EUROPE</u>			YUGOSLAVIA USSR	E. GERMANY HUNGARY POLAND
<u>ASIA</u>	INDONESIA PAKISTAN PHILIPPINES SOUTH KOREA THAILAND TURKEY BANGLADESH	TAIWAN	CHINA S. KOREA TAIWAN THAILAND TURKEY SYRIA	HONG KONG INDONESIA MALAYSIA BANGLADESH

9. Knitting

	<u>PRIMARY</u>	<u>SECONDARY</u>
<u>AFRICA</u>	ALGERIA (W&C) EGYPT (C&F)	MOROCCO (C&F) NIGERIA (C) S. AFRICA (C) TANZANIA (C)
<u>LATIN AND CENTRAL AMERICA</u>	ARGENTINA (C) MEXICO (W,C,F) VENEZUELA (W)	ARGENTINA (F) VENEZUELA (C & F)
<u>EASTERN EUROPE</u>	HUNGARY USSR YUGOSLAVIA	E. GERMANY POLAND ROMANIA
<u>ASIA</u> (W-Warp) (C - Circular) (F - Flat)	PAKISTAN SOUTH KOREA TURKEY	CHINA PHILIPPINES

10. Nonwovens

<u>AFRICA</u>	S. AFRICA	MOROCCO
<u>LATIN AND CENTRAL AMERICA</u>	BRAZIL MEXICO VENEZUELA	ARGENTINA ECUADOR PERU
<u>EASTERN EUROPE</u>	E. GERMANY POLAND ROMANIA YUGOSLAVIA USSR	BULGARIA HUNGARY
<u>ASIA</u>	TAIWAN THAILAND TURKEY	SOUTH KOREA INDONESIA PAKISTAN

11. Dyeing

<u>AFRICA</u>	EGYPT	ALGERIA NIGERIA SOUTH AFRICA TANZANIA
<u>LATIN AND CENTRAL AMERICA</u>	ARGENTINA MEXICO	BRAZIL COLOMBIA PERU VENEZUELA

11. Dyeing continued

	<u>PRIMARY</u>	<u>SECONDARY</u>
<u>EASTERN EUROPE</u>	POLAND USSR	CZECHOSLOVAKIA E. GERMANY ROMANIA YUGOSLAVIA
<u>ASIA</u>	CHINA INDONESIA SOUTH KOREA TAIWAN TURKEY	MALAYSIA BANGLADESH

12. Finishing

<u>AFRICA</u>	EGYPT	ALGERIA NIGERIA
<u>LATIN AND CENTRAL AMERICA</u>	BRAZIL MEXICO	ARGENTINA COLOMBIA ECUADOR PERU VENEZUELA
<u>EASTERN EUROPE</u>	POLAND USSR YUGOSLAVIA	CZECHOSLOVAKIA E. GERMANY ROMANIA
<u>ASIA</u>	CHINA INDONESIA PAKISTAN SOUTH KOREA TAIWAN TURKEY	MALAYSIA BANGLADESH

13. Printing

<u>AFRICA</u>	EGYPT SUDAN	ALGERIA IVORY COAST NIGERIA
<u>LATIN AND CENTRAL AMERICA</u>	ARGENTINA MEXICO	BRAZIL COLOMBIA PERU VENEZUELA
<u>EASTERN EUROPE</u>	POLAND USSR YUGOSLAVIA	CZECHOSLOVAKIA E. GERMANY ROMANIA
<u>ASIA</u>	CHINA INDONESIA SOUTH KOREA TAIWAN TURKEY	INDIA MALAYSIA BANGLADESH

U.S. Mill Industry

It cannot be overemphasized that the U.S. continues to be the world's largest market for textile machinery. Although some shrinkage in terms of installations has taken place over the last decade, capital outlay for new equipment to replace obsolete machinery has increased. The explosion of new technologies has resulted in a much higher productive capacity enabling the industry to produce more on fewer machines.

The need for ongoing modernization in the eighties is required not only to maintain the U.S. competitive position in domestic and foreign markets, but also to comply with environmental regulations and to conserve energy. Higher labor costs and an increasing shortage of skilled labor are also to be considered.

And in an age where return on investment is becoming a pre-requisite of equipment investment, the availability of advanced technologies makes modernization more attractive to mill management.

Although textile production is expected to continue to climb during the coming decade, this will occur via the upgrading and replacement of existing plant and equipment rather than expansion per se. Filament yarn manufacturing will continue to be an important U.S. market. Investments in third generation texturing equipment are likely to accelerate as the current state-of-the-art obsolesces anything under 600 m.p.m. The new equipment will provide productivity increases as well as energy savings.

The short staple yarn manufacturing sector has experienced considerable modernization to effectuate compliance with OSHA's cotton dust regulations and in preparation for shuttleless loom conversion. This pattern is expected to continue into the eighties. New carding and rebuilt cards appear to have an equal market share, however, return on investment favors rebuilding until new technologies obsolete carding as we know it.

Cotton as a fiber represents more difficulty as far as OSHA compliance is concerned. Combed cotton (as opposed to blends) therefore must also take into account this extra burden. Decision on combed cotton product expansion or replacement will be based on total cost including OSHA burden.

The retrofitting of ring spinning frames continues to be a strong market as the cost per spindle is considerably less than purchasing entire new systems. Open-end installations during the seventies were considerable in the U.S., however, there is presently a surplus in capacity. While new purchases are expected over the next few years, significant quantities are not likely in the near term. Present technology limits open-end to coarse yarn counts. Should a system be developed for finer yarn counts, substantial purchases can be expected to replace ring spinning.

In the woolen and worsted section, there is little opportunity foreseen as this market continues to decline. There is some potential for tow to top processing equipment as man-mades become more important in long staple yarn manufacturing. The major shift has been from Turbo to the Seydel stretch break converter.

Twisting still has a place in sales yarn facilities while integrated mills lean towards two for one. Automatic winding continues to be strong in relationship to ring spinning, however, open-end frames have built-in capabilities.

With shuttleless loom installations increasing, there is a need for more sophisticated warp preparation systems. Significant replacement potential exists in all areas. Existing systems need retrofitting to accommodate new technologies such as foam. The replacement of shuttle looms with shuttleless, particularly air and water jets, will be further emphasized during the next decade. Rapier loom population is the largest in the shuttleless category and although future placements are anticipated, they are expected to be on a modest scale.

The knitting sector will experience limited expansion and some replacement focusing on warp and flat bed machines. The development of a spun-like filament yarn could rejuvenate this industry considerably.

Nonwovens offer some expansion potential in the area of spun bonded and wet laid systems. The dry laid market is contracting, however, some opportunity for replacement sales exist.

No growth is anticipated in package dyeing and replacement potential is limited at best. Batch dyeing is likely to experience modest expansion while the market for continuous system remains limited to replacement sales.

The dry finishing market is cyclical being governed by fashion demand. Velours and plushes are diminishing in importance but as other surface techniques come on stream, this market will pick up.

Significant modernization and replacement is needed in the wet finishing sector. Curing is likely to be incorporated into tenters. Foam finishing technology will become more important as a means to further energy conservation. Little expansion is anticipated as present capacity is sufficient to accommodate any fabric production increases during the next five years.

Rotary screen printing will continue to be a good market while transfer printing declines due to a surplus capacity. Computer control technology enabling garment patterns to be printed directly onto fabric for laser cutting is being developed which could revolutionize the industry.

Overall, the rate of replacement should increase appreciably in the near term depending on which depreciation bill is passed by Congress. The technologically advanced equipment of the eighties will be costly. Shorter write-off periods will offer further incentive for U.S. mills to modernize.

II. MARKET IDENTIFICATION SUPPLEMENT

As the study developed, it became apparent to ATMA that neither the study scope nor resources available would allow in-depth examination of U.S. textile machinery sales prospects that study research was identifying. Therefore, ATMA requested, and Economic Development Administration accepted, a supplemental grant to gain this information.

Detailed market intelligence was sought to assist U.S. firms structure sales plans, efforts and targets by means of individual investigations of 51 countries for ten major textile process categories and 56 product subsegments. In fact, 12 processes and 62 subsegments were addressed during the study, at no government expense beyond the stipulated grant. A team of senior marketing specialists collected this data through literature research and by direct contacts with mill executives, trade organizations and government services.

Each country investigation was aimed at obtaining an overall picture of the textile industry and considered various factors ultimately affecting textile machinery sales potential, such as: political stability, relations with U.S., economic situation, foreign trade patterns, hard currency availability, state of textile industry, population and growth rate, per capita textile consumption and trends, government attitude toward the textile industry, textile and trade goals, raw material supply, foreign investment, local machinery industry, desire to expand or modernize, and labor or capital intensity.

Primary and secondary most promising markets (countries) by major textile machinery categories are listed previously. Although not included in this study, the fully developed countries such as the U.S. and E.E.C. should not be discounted as these countries will always be the first market for new technologies and on-going modernization. In fact, these countries represent the highest potential at the present time for nonwoven equipment and should not be overlooked.

Developing countries will continue to offer significant opportunity for all equipment suppliers - South Korea, Malaysia, Pakistan, P.R.C., Philippines, Syria, Taiwan, Thailand, Turkey, Egypt, Kenya, Morocco, Nigeria, South Africa, Sudan and Tanzania.

The textile industries of Latin America are long established and, while basically a replacement market, some are still considered developing countries - Argentina, Brazil, Chile, Colombia, Mexico, Venezuela - and continue to expand.

Textile development is in various stages in all of these countries. Getting in on the ground floor is definitely an asset, as mill management tends to remain with the original suppliers if their machinery is more or less competitive with other manufacturers.

Eastern Europe has been rapidly expanding in recent years. Although there exists a consortium of textile machinery producers who supply equipment to each of the countries, there is still a substantial amount of machinery imported from the West. The USSR, largest of all, imports 25% of their requirement from sources other than the Comecon. The textile machinery industry hopes to be 80% self-sufficient by 1990. Even if this goal is attained, significant potential still exists. Therefore, the U.S. suppliers should not hesitate to investigate these opportunities.

Bangladesh, India, Algeria, Cameroon, Ghana, Mozambique, Tunisia, Zaire, Zambia, Bolivia, Costa Rica, Ecuador, Guatemala, Honduras, Paraguay, Peru and Uruguay are, for the most part, considered emergent countries. Their development has been impeded for various reasons - political instability, lack of raw materials, accelerated population growth, etc. A few have recently come about and are about to, or in the process of, further developing their textile industries - Bangladesh, Algeria, Cameroon, Tunisia, Ecuador, Peru and Uruguay.

Domestic consumption in all of these countries will continue to rise, but will not significantly affect machinery purchases over the next five years, except in a few instances. This situation is pinpointed in the individual country reports where it applies.

The continual shifting of textile world trade has a dramatic effect on capital investment for textile machinery and this situation should be closely monitored. Many expansion plans have been scratched as a result of declining export markets, especially in those countries dependent on trade with the E.E.C.

The data which was gathered for each particular country and the five year sales potential assessment is based on a quartile rating system. The textile machinery subsegments which are rated I and II should be considered primary and secondary export markets. This is not to say that the other countries offering limited potential should be ignored. A network of communication and periodical literature to acquaint these long-term potential customers will enhance penetration opportunities when their time comes.

On a continent-by-continent basis, the country investigations are highlighted. Note the following code to read the tables:

Installed Capacity - (IC)

Countries divided into four groups by number of machine units in place:

- I - top quartile - most units in place
- II - 2nd quartile - medium units in place
- III - 3rd quartile - low units in place
- IV - low quartile - least units in place

Five Year Machinery Sales Potential - Replacement and Expansion - (SP)

Countries identified as to potential for machinery sales.

- I - top quartile - highest potential in unit sales
- II - 2nd quartile - medium potential in unit sales
- III - 3rd quartile - low potential in unit sales
- IV - low quartile - least potential in unit sales

Machinery in Place - Age (A)

- A - Newest - average 5 years (or less)
- B - Fairly New - average 10 years
- C - Fairly Old - average 15 years
- D - Oldest - average 20 years (or more)

It is emphasized that all tables in this section are representative of composite information. Subcategory exceptions do exist. The ATMA is willing to provide its insight to U.S. textile machinery manufacturers of specific subcategory machines as they contemplate specific markets.

AFRICA

	<u>Spindles</u>	<u>Looms</u>	<u>Age</u>	<u>5-Year Sales Potential</u>
Algeria	243,000 R	8,200 S 700 SL	70% 15 yrs.	Good
Angola	38,000+ R	850 S	50% plus 20 yrs.	Fair
Cameroon	42,000 R	1,000 S 30 SL	50% over 20 yrs.	Poor
Egypt	2,500,000 R 18,000 OE	33,000 S 250 SL	50% 20 yrs.	Excellent
Ghana	164,000 R 300 OE	3,500 S Few SL	50% less 10 yrs.	Sh.Stap. - Fair Overall - Poor
Ivory Coast	93,000 R 100 OE	2,200 S 160 SL	10 yrs. or less	Poor
Kenya	105,000 R	1,900 S 104 SL	10 yrs.thru knit. 20 yrs.dye., print,fin.	Poor Fair
Morocco	281,000 R 11,000 OE	3,200 S 250 SL	10 yrs. or less	Good to Fair
Mozambique	60,000 R	2,500 S	Maybe 50% over 20 yrs.	Fair
Nigeria	70,000 R	16,500 S 2,000 SL	50% avg. 20 yrs.	Very Good
South Africa	733,000 R 5,600 OE	6,200 S 1,300 SL	10-15 yrs.	Good
Sudan	235,000 R 3,000 OE	4,500 S	10 yrs.	Excellent
Tanzania	205,000 R 24,000 OE	3,700 S	75% less 10 yrs.	Fair
Tunisia	120,000 R	2,200 S 400 SL	10-15 yrs.	Promising
Zaire	128,000 R	2,600 S	10-15 yrs.	Fair
Zambia	20,000 R	450 S	10-15 yrs.	Poor

(R - Ring)

(OE - Open End)

(S - Shuttle)

(SL - Shuttleless)

AFRICA

COUNTRY	F.Y. Mfg.		Sht. Stap.		L. Stap.		Yn. Process.		Warp. Prep.		Weaving							
	IC	SP	IC	A	SP	IC	A	SP	IC	A	SP	IC	A	SP				
Algeria	IV	-	IV	III	C	I	IV	D	I	III	C	II	III	C	II	II-III C/A	II	
Angola	IV	-	IV	IV	D	III	IV	-	IV	IV	D	III	IV	D	III	IV	D	III
Cameroon	IV	-	IV	IV	C	IV	IV	-	IV	IV	C	IV	IV	C	IV	IV	C	IV
Egypt	I	B	I	I	C/D	I	II	D/A	I/II	I	D/A	I	I	D	I	I/IV	A/D	I/IV
Ghana	IV	-	IV	IV	A/D	III/II	IV	-	IV	IV	B/C	III	III	B/C	III	III	C	III
Ivory Coast	IV	B	IV	IV	B	II/IV	IV	-	IV	IV	B	III	IV	B	III	IV	B	III
Kenya	IV	B	IV	IV	B	III	IV	-	IV	IV	B	IV	IV	B	III	IV	B	IV
Morocco	IV	-	IV	III	B	II	IV	C/A	III	III/IV	B/A	II/III	III	B	II	III/IV	A/B	III/IV
Mozambique	IV	-	IV	IV	B/D	III	IV	-	IV	IV	B/D	III/IV	IV	D	IV	IV	B/D	III/IV
Nigeria	III	A	III	II	C	II	IV	D	IV	IV	C/A	II/III	II	D	I	II-IV	A/B	I/IV
South Afr.	II	B	III	II	B	II	II	C/A	II	III	B-A	I-III	III	B/C	II	III-IV	B-A	II/IV
Sudan	IV	-	IV	III	B	I	IV	-	IV	IV	B	I-IV	III	B	II	III/IV	B/A	I-IV
Tanzania	IV	-	IV	III	B	III	IV	-	IV	III	B	III	III	D	II	III-IV	B-A	II-IV
Tunisia	IV	B	IV	IV	C	II	IV	-	IV	IV	C	III	IV	C	III	IV	C/A	III/IV
Zaire	IV	-	IV	IV	B/C	II	IV	-	IV	IV	B/C	II/IV	IV	B/C	III	IV	B/C	III/IV
Zambia	IV	-	IV	IV	B	III	IV	-	IV	I	B	IV	IV	B	III	I	B	IV

Code: IC - Installed Capacity A - Age SP - Sales Potential
See page 68 for subcodes.

AFRICA

COUNTRY	Knitting		Nonknovens		Dyeing		Dry, Fin.		Wet Fin.		Print.	
	IC	A	SP	IC	A	SP	IC	A	SP	IC	A	SP
Algeria	III	C	II	III	A	II	II	D	III	II	D	II
Angola	IV	-	IV	IV	B	IV	IV	C	III	IV	D	III
Cameroon	IV	-	IV	IV	-	IV	IV	B/D	IV	IV	C-B	IV
Egypt	I	C/D	I/IV	III	B	II	I	D	I/III	II	D	I
Ghana	IV	B	IV	IV	-	IV	IV	C	III	IV	C	IV
Ivory Coast	IV	B	III	IV	-	IV	IV	C	III	IV	C	III
Kenya	IV	B/D	III	IV	-	IV	IV	D	III	IV	D	IV
Morocco	III	B/C	III	IV	A	IV	III	B/C	IV	III	B	IV
Mozambique	IV	B	IV	IV	-	IV	IV	D	III	IV	D	III
Nigeria	III	B	II	IV	-	III	III/IV	C/B	II/III	III	C	II/III
South Afr.	II	D/C	II/III	I	B	I	II	C	II/III	II	C	III
Sudan	IV	B	III	IV	-	IV	III	C/B	III/I	III	C	II
Tanzania	III/IV	C/D	II/IV	IV	-	IV	III	C	IV	IV	C	III
Tunisia	IV	B/C	IV	IV	-	IV	IV	C	III	IV	C	III
Zaire	IV	C-A	IV	IV	B	IV	IV	C	III	IV	B/C	III
Zambia	IV	C	IV	IV	-	IV	IV	C	IV	IV	C	III

LATIN AND CENTRAL AMERICA

	<u>Spindles</u>	<u>Looms</u>	<u>Age</u>	<u>5-Year Sales Potential</u>
Argentina	1,300,000 R 19,000 OE	200,000 S 3,900 SL	50% obsolete	SS & Finishing Very Good
Bolivia	40,000 R 2,400 OE	600 S	Obsolete	Limited
Brazil	4,500,000 R 27,000 OE	64,700 S 1,150 SL	75% 20 yrs.+	Good
Chile	400,000 R 2,900 OE	6,900 S 200 SL	Most Obsolete	Good if MFN & Exim- bank benefits are restored
Colombia	970,000 R 4,000 OE	15,800 S 900 SL	50% 20 yrs.+	Very Good
Costa Rica	20,000 R maybe	unknown	10-15 yrs.	Very Limited
Ecuador	184,000 R 1,400 OE	3,600 S 375 SL	50% plus obsolete	Fair to Good
Guatemala	124,000 R 200 OE	2,800 S 25 SL	50% over 20 yrs.	Fair
Honduras	30,000 R	1,000 S 10 SL	50% obsolete	Poor to Limited
Mexico	3,300,000 R 17,000 OE	79,000 S 4,000 SL	50% 15 yrs. or more	Excellent
Paraguay	49,000 R 360 OE	700 S 250 SL	15 yrs.	Limited
Peru	625,000 R 1,900 OE	9,000 S 260 SL	10-15 yrs.	Very Good
Uruguay	200,000 R 200 OE	3,400 S 150 SL	15-20 yrs.	Limited-small
Venezuela	550,000 R 5,500 OE	6,600 S 500 SL	15-20 yrs.	Good

LATIN AND CENTRAL AMERICA

COUNTRY	F.Y. Mfg.		Sht. Stap.		L. Stap.		Yn. Process.		Warp. Prep.		Weaving	
	IC	A	SP	IC	A	SP	IC	A	SP	IC	A	SP
Argentina	I	B	III	II/IV	D/A	II	I	A/C	III	II	D/B	III
Bolivia	IV	B	IV	IV	D	III	IV	B/D	III	IV	D	III
Brazil	I	B	II	II	C	II	II	B/D	II/III	II	B-D	I/III
Chile	III	B	IV	III	B/D	II	II	B/D	II	III	B-D	II/III
Colombia	III	C	IV	II	C/D	II	II	D	III	II	B-D	II/III
Costa Rica	IV	B	IV	IV	B/C	IV	IV	B/C	IV	IV	B	IV
Ecuador	III	B	III	IV	D/B	II/III	IV	C/D	II	IV	D/B	II/III
Guatemala	IV	B	IV	IV	B/D	III	IV	-	IV	IV	B/D	III/IV
Honduras	IV	-	IV	IV	D	IV	IV	D	III/IV	IV	C/D	IV
Mexico	I	C	I	I	C	I	II	B-D	I	I	D-C	I
Paraguay	undependable data											
Peru	III	B	III	II	B/C	II	II/III	C/B	III	II/III	B/C	II
Uruguay	IV	B	IV/III	III/IV	D	III	III	D	III	III	B-D	III/II
Venezuela	II	B	II	II-IV	D-B	II/III	III	D/A	II/III	II/III	C/B	III/II

See page 68 for codes.

LATIN AND CENTRAL AMERICA

COUNTRY	Knitting			Nonwovens			Dyeing			Dry. Fin.			Wet Fin.			Print.		
	IC	A	SP	IC	A	SP	IC	A	SP	IC	A	SP	IC	A	SP	IC	A	SP
Argentina	III	D	III	II	B	II/III	II/III	B-D	II/III	II	C	III	II-IV	B-D	II/III	II	B-D	II/IV
Bolivia	IV	B-D	III	IV	B	III	IV	D	IV	IV	D	III	IV	B-D	III	IV	B/D	IV
Brazil	I	C/B	III	II	B/A	II/I	I/II	D/A	III/I	I	D	I	I/II	B-D	II/I	II	B-D	II
Chile	I/IV	C-A	IV	IV	A	III	III	D	II/III	III	D	II	III/IV	A/D	II/III	III	A/C/D	II/III
Colombia	II	B	III	II	A	I	II	B-D	II/III	II	D	II	II	C/D	II	II	B-D	II/IV
Costa Rica	IV	E	IV	IV	-	IV	IV	C	IV	IV	C	IV	IV	C	IV	IV	B/C	IV
Ecuador	IV	C/B	II/III	III	B	III	III/IV	D-A	III	III	C	III	III	C/D	III	III	IV/B-D	III
Guatemala	IV	D	IV	IV	B	IV	IV	B-D	III	IV	D	III	IV	D	III	IV	C/D	IV
Honduras	IV	B/C	IV	IV	-	IV	IV	D	IV	IV	C/D	IV	IV	D	IV	IV	D	IV
Mexico	I	B/C	I/II	I	B	I	I	B-D	I-IV	I	D	I	I/II	D/B	I/II	I/II	B-D	I/II
Paraguay	undependable data																	
Peru	II	B	II	IV/III	A/B	II/III	II-IV	C/B	II-IV	II	C	II	II	B/C	I-III	II	B-D	II-IV
Uruguay	IV/III	C/B	IV/III	IV	A/B	III	IV	D-A	III/IV	III	D	III	III	D	III	IV	B-D	III
Venezuela	III	D/B	II/I	II	B	I	III/IV	D-B	II/IV	III	D	III	III	B-D	II-IV	III/IV	B-D	II-IV

See page 68 for codes.

EASTERN EUROPE

	<u>Spindles</u>	<u>Looms</u>	<u>Age</u>	<u>5-Year Sales Potential</u>
Bulgaria	870,000 R 26,500 OE	10,900 S 3,200 SL	50% 15-20 yrs.	Fair
Czechoslovakia	1,841,000 R 144,000 OE	26,000 S 8,000 SL	50% 20 yrs.	Fair, if financing avail.
Hungary	565,000 R 38,000 OE	6,300 S 2,400 SL	15-20 yrs.	Good
Poland	2,118,000 R 120,000 OE	19,500 S 4,000+ SL	50% 20 yrs.	Fair, excellent for finishing
Romania	900,000 R 150,000 OE	17,000 S 800 SL	50% 20 yrs.+	Good, except spindles & looms
USSR	16,000,000 R 800,000 OE	275,000 S 90,000 SL	50% 20yrs.+	Good
Yugoslavia	1,100,000 R 400,000 OE	16,500 S 1,500 SL	15-20 yrs.	Good except spinning and some dyeing

EASTERN EUROPE

COUNTRY	F.Y. Mfg.			Sht. Stap.			L. Stap.			Yn. Process.			Warp. Prep.			Weaving		
	IC	A	SP	IC	A	SP	IC	A	SP	IC	A	SP	IC	A	SP	IC	A	SP
Bulgaria	III	E	IV	II	C	III	II	C	II	II	B	I/III	II	C	II	II-III	C-A	III-II
Czechoslovakia	III	B	IV	I	C/D	III	II	D	III	II/III	C/B	III	II	C	III	I	D-A	IV
Hungary	III	B	III/II	II	C/D	II/III	III	C/D	I	I-III	D-B	I/II	II	D	II	III-I	C/A	III/II
Poland	II	B	III	I	D/B	IV	I	D/B	III/II	I/II	B-D	III/II	II	D	I	II-III	D-A	IV-I
Romania	III	B	II	II	D/B	I	IV	D	II/I	II/III	D/B	I/II	II	C/D	I	II/IV	D/B	I/II
USSR	I	B/C	I	I	D/B	I	I	D	I	I	B/C	I	I	C/D	I	I-III	D-A	I
Yugoslavia	II	B	II	II	C/D	II/IV	II	D	I-IV	II	C/D	II	II	C/D	II	II	D/A	III/II

See page 68 for codes.

EASTERN EUROPE

COUNTRY	Knitting			Nonovens			Dyeing			Dry, Fin.			Wet Fin.			Print.		
	IC	A	SP	IC	A	SP	IC	A	SP	IC	A	SP	IC	A	SP	IC	A	SP
Bulgaria	IV	C	IV	III	B	II/III	II	C	III	II	C	II	II	C	III/II	II	C	II/III
Czechoslovakia III	D	III	II/III	B	III	I	D	III/II	I	D	III	I	I	D	III/II	I	D	II
Hungary	II/III	C	III/IV	II/III	B	II	III	D	III	III	D	III	III	D	III	III	D	IV
Poland	III	C/D	III	II	B	II	II	D	II/I	II	C/D	II	II	C/D	I/II	II	C/D	II
Romania	I	C/B	II	III	B	II	II	D	III	II	D	III	II	C/D	III/II	II	C/D	III
USSR	I	C	I	I	B	I	I	C/D	I	I	D	I	I	C/D	I	I	B/D	I
Yugoslavia	II	C/E	I/II	II	B	I	II	D-A	II	II	D	I	II	D	I/II	II	B-D	I/IV

See page 68 for codes.

ASIA

	<u>Spindles</u>	<u>Looms</u>	<u>Age</u>	<u>5-Year Sales Potential</u>
Bangladesh	900,000 R 45,000 OE	8,000 S 100 SL	Obsolete	Possibly Excellent
Hong Kong	900,000 R 45,000 OE	30,000 S 400 SL	10-15 yrs.	Good
India	20,000,000 R 2,000 OE	40,000 S 300 SL	SS-40, LS-20	Excellent - SS, and LS and Printing
Indonesia	1,780,000 R 3,800 OE	65,000 S 1,100 SL	75% 10 yrs. or less	Excellent
Israel	340,000 R 1,000 OE	4,400 S 300 SL	50% outdated	Fair
Korea	2,941,000 R 21,000 OE	83,600 S 3,000 SL	5-10 yrs.	Excellent
Malaysia	303,000 R 1,500 OE	8,000 S 50 SL	75% less 10 yrs.	Good
Pakistan	3,550,000 R 16,000 OE	29,000 S 450 SL	Avg. over 20 yrs.	Excellent
People's Republic of China	20,000,000 R Unknown OE	291,000 S Unk. SL	50% 20 yrs. plus	Excellent??
Philippines	1,035,000 R 5,100 OE	2,100 S 720 SL	Avg. 20 yrs.	Excellent
Syria	258,000 R 23,000 OE	4,100 S 800 SL	50% over 20 yrs.	Good
Taiwan	3,600,000 R 49,000 OE	52,000 S 7,000 SL	70% 10 yrs. or less	Very Good
Thailand	1,129,000 R	54,000 S 200 SL	Avg. 10 yrs.	Good/Fair
Turkey	3,100,000 R 6,400 OE	31,000 S 2,000 SL	10 yrs. public 20 yrs. private	Excellent

COUNTRY	F.Y. Mfg.		Sht. Stap.		L. Stap.		Yn. Process.		Warp. Prep.		Weaving							
	IC	SP	IC	A	SP	IC	A	SP	IC	A	SP	IC	A	SP				
Bangladesh	IV	B	IV	II/IV	D	I	IV	II/IV	D	I/IV	II	D	I	II-IV	D-A	I-IV		
Hong Kong	IV	B	IV	II	B/D	II/IV	IV	D	III	I/III	C/B	III/IV	I	B	III	I	C-B	IV-II
India	I	B	IV	I/IV	D	I/IV	I/IV	D	I/IV	I-IV	B-D	IV	I	C/D	IV	I-IV	A-B	IV
Indonesia	II	B	IV	I	B	I	IV	B	IV	I/III	B	I/III	I	C/B	I	I-IV	C-B	I-IV
Israel	III	B	IV	III	C/D	II/III	III/IV	C/D	III/A*	III	B/C	III	III	C/D	IV	I-IV	D-A	III/IV
South Korea	I	B	III	II/I	B/A	I/III	I	B	I	I	B	I	I	B	I	I	A/B	I
Malaysia	IV	A	IV	III	B	II	IV	C	II/III	III/IV	B	II/III	I	B	II	II-IV	B-A	II/IV
Pakistan	IV	A	III	I-IV	D/A	I/II	III/IV	D	I/IV	II/IV	D/A	I/III	II	D	I	II-IV	D-A	I-III
P.R. of China	Unknown																	
Philippines	II	A	I	II	D/A	I/II	III/IV	D	II/III	II/III	D/A	I/II	II	D	II	II-IV	D-A	II-IV
Syria	IV	A	IV	III	C/D	I/III	II	B	IV	III/IV	C/A	I/IV	III	C/D	I	III/IV	D/B	III/IV
Taiwan	I	B	IV	I	B	I	II	B	II	I	B/C	II	I	B/C	II	I	B/A	II/I
Thailand	II	B	III	II	B	II	IV	A/B	IV	II	B	I/III	I	B/C	II	I-III	B-A	I-II
Turkey	I	B	II	I	A	I	I	B/C	I	I/II	B/C	I/II	I	B/C	I	I	B-A	I-III

See page 68 for codes.

ASIA

COUNTRY	Knitting		Nonwovens		Dyeing		Dry, Fin.		Wet Fin.		Print.	
	IC	SP	IC	SP	IC	SP	IC	SP	IC	SP	IC	SP
Bangladesh	IV	D	IV	-	IV	-	-	-	-	-	-	-
Hong Kong	II	B	IV/II	B	IV/III	II/IV	II	B	III	II	B-D	II-IV
India	I/III	D/C	IV	III/IV	B	III	I/IV	C/D	IV	I	C	IV
Indonesia	I	B	IV	II	A	II	II	B	II/III	II	B	I-III
Israel	III	C	IV	III	B	III	III	C-D	III	III	D	III
South Korea	I	B	I	II	B	-	I/IV	B/C	I/III	I	C	II
Malaysia	IV	B	IV	A	III	IV	IV	B	IV	IV	B/A	III/IV
Pakistan	II	B	II	III	B	III	II/III	B/D	I/III	II	C/D	I
P.R. of China	Unknown											
Philippines	II	B	II/IV	IV/III	A/B	III	II/IV	D/B	III/IV	II	D	III
Syria	III	C/D	III	IV	A	IV	III	D/B	II	III	C	II
Taiwan	I	C	IV	II/I	B	I/II	I	B	I/II	I	B	I
Thailand	II	C	III	II/III	B	II/I	II	B/C	III/II	II	B/C	III
Turkey	I	B	I	I	A/B	I/II	I/II	IV/B/C	II/I	I	B/C	I

See page 68 for codes.

No examination of Asia is complete without consideration of the People's Republic of China, which was officially recognized by the United States Government in January of 1979. Determined to become the world's largest textile producer and exporter, the PRC is actively seeking the most advanced equipment and technical know-how available throughout the world. Several delegations have been sent to Europe, Hong Kong and the U.S. in the last eighteen months to study state-of-the-art, production methods, quality standards and to make purchases. Without a doubt, China has the largest short-term textile machinery sales potential in the world. However, it appears that the U.S. textile machinery industry has limited opportunity to sell in this market for various reasons.

The primary obstacle is China's vascillating prerequisite that new machinery be built to metric specifications. Exceptions will be made only when there is no comparable item produced on the metric system. This was largely confirmed by the China delegation which was hosted by ATMA in November. They see no reason to re-tool when most of the technologically acceptable machinery on the market today is produced on the metric system. But again, mixed signals are given; the ATMA-sponsored booth at DOC's "China 80" in Beijing was well-received in December.

But, European and Japanese competitors have the advantage. Several of these manufacturers are gaining significant ground via direct sales, turnkey operations, joint ventures and licensing.

China's own textile machinery industry is concentrated mainly in Shanghai with some 180 manufacturing facilities. It would seem future DOC-sponsored activities should take this into serious consideration. The machinery-makers are close to a large concentration of mills and Shanghai has good show and visitor facilities. They service more than half of the domestic market as well as several LDC's. Their Textile Machinery Manufacturing Consortium has responsibilities similar to those of the ATMA. In the last year, they have become extremely active in gathering data on Western manufacturing and technologies. They also have the authority to set up joint ventures with foreign investors.

China has made it clear that the import of machinery is basically short-term (five to ten years) and that they intend to copy technology to the extent possible in their own machine industry for domestic and foreign marketing.

The textile industry is committed to increasing their production to keep up with domestic requirements and to enhance position as a leading exporter. Man-made fiber production increased 45% in the first half of 1980 while overall all textile output was ahead some 25 to 30%. Filament yarn manufacturing capacity is scheduled to increase further and additional facilities are currently under construction. Japan, Germany, and France have been the chief suppliers of this equipment.

China continues to be one of the largest cotton growers in the world, however, their consumption is purposely declining for two reasons. Feeding their population of nearly one billion is becoming increasingly more difficult, therefore, much of the acreage devoted to cotton is being given over to food crops.

The level of cotton dust in their mills is another area of concern as the government has set exposure limits similar to those in the U.S. This is forcing modernization on 100% cotton mills or diversification to blends or wholly man-made fibers.

Their short staple spinning capacity is estimated at 20 million spindles. Obsolescence is a problem as China's rate of replacement averages 5% a year. It is estimated that some two million additional spindles will also be needed to reach their production goals next year. The local machine manufacturers could supply about half of the demand but their quality is said to be sub-standard. China has recently purchased spindles from Zinser and more foreign orders are expected.

Carding equipment is reportedly outdated in more than half of their spinning facilities. Extensive modernization is needed as well as increased capacity.

Long staple yarn manufacturing is likewise in need of modernization but will take a back seat to the other sectors. Most of the yarns produced are of inferior quality and output is destined primarily for the domestic carpeting market rather than apparel. Most new equipment is likely to be purchased from local suppliers although some recent installations have been provided by Befama.

Twisting and winding purchases from Western manufacturers are expected to continue. Recent sales went to Barmag, Murata and Schlafhorst, however, it has been reported that China is most interested in acquiring a license to produce this equipment locally.

France and Japan are the major foreign suppliers in the weaving sector. Domestic manufacturers have produced an air jet and are said to be developing gripper and rapier type looms. Additional air jets and water jets are expected to be installed to accommodate production increases of silk and man-made textured woven fabrics. Lightweight blends of 65/35 and perhaps 75/25 polyester/cotton will become much more important. A keen interest in the weaving and finishing of corduroy (100% cotton and the mini blend) was made apparent in their recent trip to the U.S.

The knitting sector has been played down in the past as development priorities were on woven goods. Warp knitting is still in the developing stage and sources indicate China still has a long way to go. Circular knitting is the mainstay of the sector and is confined to underwear only. There is no significant flat knitting capacity existing or planned. With the increased output of man-made fibers it is probable that this sector will receive more attention in the near future.

Dyeing, printing and finishing is in desperate need of modernization and the powers that are in China's textile industry are on a shopping spree. They have been to several countries including the U.S., studying and purchasing the latest technologies and equipment. Of critical need here is technical training along with the machinery. They are clearly interested in state-of-the-art, return on investment and energy-efficiency.

Thus far, chief suppliers in the dyeing sector have been Platt Longclose, Textima and Montforts. Emphasis has been on continuous piece dyeing - an area in which U.S. textile machinery manufacturers are extremely competitive, and there are signals U.S. sales can be made.

Roller printing is the most commonly utilized printing method in the P.R.C. Some transfer printing is being done on cotton fabrics and rotary screen printing machines have recently been developed (although their technology is not as advanced as the Western manufacturers).

China's silk fabrics are presently exported to France and Italy for finishing and printing as China does not have the required technology or equipment available domestically. Joint ventures, licensing, and direct sales along with technical training is being sought now. The sales potential in dyeing through finishing is outstanding and, with wider width fabric production soon to be introduced, the need for modernization is even more pressing.

Certainly, U.S. sales to China will be lost if competitive financing cannot be obtained.

III. GOVERNMENT PROGRAMS IDENTIFICATION

ATMA retained a firm versed in the government labyrinth to identify federal government agencies and programs that might be of use in implementing the several recommendations set forth in the study.

What follows is largely the submission of Zuchelli, Hunter & Associates, Inc. (ZHA). It is recognized as neither comprehensive, nor necessarily cognizant of the industry's willingness to pursue such government assistance. Nevertheless, following review of the report submitted by ZHA, ATMA's Market Development Committee judged it worthy of inclusion and future consideration.

The results of the submission are presented in three sections: introduction, financial assistance, and non-financial assistance.

Financial assistance types are: direct loans, direct payments for specified use, direct payments with unrestricted use, guaranteed/insured loans, and project grants.

Non-financial assistance types are: advisory services and counseling, investigation of complaints, and provision of specialized services.

ZHA focused on 14 of the study recommendations, seven each aimed at domestic and foreign markets. The majority of assistance descriptions zeros-in on Department of Commerce.

The study recommendations focus is as follows:

- Domestic:
1. Build up a research and development commitment once licensing of current technology is complete;
 2. Improve dialogue with mills through technical forums and other vehicles;
 3. Improve dialogue with fiber-producer/chemical dyestuff manufacturers through technical forums;
 4. Centralize certain joint research and development activities through ATMA;
 5. Improve brochures/public relations efforts of the ATMA members;
 6. Establish a technical information bureau to monitor and critique foreign-based patents and technology developments;
 7. Monitor import penetration for national security reasons.
- Foreign:
1. Make U.S. machinery known to all existing turnkey operators;
 2. Have ATMA make available to membership lists of equipment, age of equipment, type of equipment, etc., by company on a continuing basis;
 3. Have ATMA develop more U.S. machinery visibility overseas;
 4. Have ATMA develop a screening resource for evaluating performance and effectiveness of agent companies;
 5. Strengthen feedback of foreign textile opportunity intelligence;
 6. Develop a public relations program to diffuse negative images and promote positive aspects of the industry;
 7. Prepare promotional brochures of all capital goods/auxiliary firms.

The 14 project recommendations matched with potential federal assistance programs can be generally grouped into four categories:

1. Improving research and development commitments within the textile machinery industry through creative financing assistance techniques available from the Federal Government (domestic: 1,4).
2. Develop public relations programs to diffuse negative images, highlight competitive advantages and promote domestic textile machinery manufacturing (domestic: 5; foreign: 1,6,7).

3. Develop an in-house resource data bank capable of continued monitoring/screening of advancements made in foreign markets and/or domestic developments which impede the ability of domestic manufacturers to compete with foreign manufacturers (domestic: 6,7; foreign: 2,4,5).
4. Sponsor technical forums designed to improve dialogue with key sectors of the domestic textile machinery industry (domestic: 2,3; foreign: 3).

Recommendations listed in Category 1 may be matched with any/all of the financial assistance techniques listed below, while recommendations listed in Categories 2 through 4 may be matched with the non-financial assistance techniques identified below.

Financial Assistance

1. Economic Development-Business Development Assistance (a direct loan)

Objectives: To encourage industrial and commercial expansion in designated areas by providing financial assistance to businesses that create new permanent jobs, expand or establish plans in redevelopment areas for projects that cannot be financed through banks or other private lending institutions.

Eligibility: Any individual, private or public corporation, provided that the project to be funded is physically situated in an area designated as eligible under the Public Works and Economic Development Act at the time the application is filed. Neither business development loans nor guarantees of any kind will be extended to applicants who: (1) have, within the previous three years, relocated any or all of their facilities to another city or state; (2) contemplate relocating part of, or all of their existing facilities with a resultant loss of employment at such facilities; and (3) produced a product or service for which there is a sustained and prolonged excess of supply over demand.

Program Operation and Use: Long-term business development loans up to 65 percent of the cost may be used for the acquisition of fixed assets only (i.e., land, building, machinery and equipment, including land preparation and building rehabilitation). Funds may be used for most kinds of new industrial or commercial facilities or to expand one already in existence. Loans for working capital needs are not limited by statute, but are available only for short periods. In addition, the government will guarantee up to 90 percent of the unpaid balance of loans for the acquisition of fixed assets or for working capital; and up to 90 percent of the rental payments required by the guaranteed lease.

Application Procedure: Applicant should contact the regional office serving the state in which the project is to be located. Range of approval/disapproval time is 90 to 120 calendar days after receipt of application. Range and average of financial assistance: \$260,000 to \$5,200,000; \$1,500,000. Regulation, guidelines, and literature: "EDA Business Development Loans, Who Can Borrow, How to Apply." Federal agency: Economic Development Administration, Department of Commerce.

Contact information: Susan Magee, Acting Deputy Assistant Secretary for Development Finance, Development Finance Projects, U.S. Department of Commerce, Washington, D.C. 20230. Telephone: (202) 377-5067.

2. Trade Adjustment Assistance (a direct loan)

Objectives: To provide adjustment assistance to firms and communities adversely affected by increased imports.

Eligibility: A firm must demonstrate that increased imports of articles like or directly competitive with those produced by the firm contributed importantly to declines in sales or production, and to separation or threat of separation of the firm's workers. A community must show an adverse economic impact from increased imports or from the transfer of a firm (or a subdivision of a firm) to a foreign country.

Program Operation and Use: The Economic Development Administration approves the proposal by a firm for its economic recovery, and provides assistance to implement the recovery plans. Adjustment assistance from EDA for individual firms may be furnished through technical and financial assistance, to be supplied separately or in combination. Financial assistance may consist of loans for capital equipment, buildings, land, and for working capital purposes. No financial assistance is provided if funds are available from private sources on reasonable terms. Technical assistance, which is provided by contracting or consulting services, may be used to help develop, as well as implement, a firm's recovery proposal.

Application Procedure: Firms: submit a petition for Certification of Eligibility to Apply for Trade Adjustment Assistance (Form ED-435). If certified by the Economic Development Administration, the firm may within two years apply (Form ED-435) for Adjustment Assistance, and submit its Adjustment Proposal on Form ED 271. Communities: Submit a community petition for certification of eligibility for Trade Adjustment Assistance, Form ED-437. After community certification, a trade-impacted area Council for Adjustment Assistance is designated for planning purposes, coordinating community action, and preparing applications for assistance. Under certain circumstances, trade-impacted communities may find it more expeditious to apply directly to EDA without Trade Act certification for assistance under EDA's Economic Adjustment Program, under which \$10 million has been set aside for community trade adjustment assistance. Deadlines for firms: must be filed within two years of Certification of Eligibility. For communities, applications may be made as long as the need persists. The range of approval/disapproval time for firms is up to 60 days after applications are accepted for filing.

Range and average of financial assistance: Firms: Up to \$1,000,000 in direct loans and \$3,000,000 in loan guarantees under Chapter 3. Communities: No dollar limitation under Chapter 4. Regulations, guidelines, and literature: Copies of pertinent regulations, guidelines, petition forms, and pamphlet entitled "Trade Adjustment Assistance Program, Guidelines for Applicants," are available from headquarters office. Federal agency: Economic Development Administration, Department of Commerce.

Contact Information: Program Benefits: Deputy Director, Office of Private Investment; telephone (202) 377-5067. Certification procedures: Jack W. Osburn, Jr., Chief, Trade Act Certification Division; telephone (202) 377-5005. Technical Assistance: Beverly L. Milkman, Director, Office of Technical Assistance; telephone (202) 377-5111. Economic Development Administration, Department of Commerce, 14th and Constitution Avenue, N.W., Washington, D.C. 20230.

The Economic Development Administration (EDA) has established a network of 10 Trade Adjustment Assistance Centers (TAAC's) across the United States. These centers are run by various nonprofit organizations under grants from EDA. They are not agencies of the Federal Government. Services available to trade-impacted firms from these centers include: guidance in preparing certification petitions; general diagnosis of the firm's problems and its opportunities for recovery; advice and assistance in preparing adjustment plans and loan applications; examination of specific problems recognized by the firm's management; and in-depth assistance to firms in implementing their recovery plans.

This assistance is being provided by professional staff, or under contracts between the center and qualified industry experts (consultants).

Except for initial precertification assistance and initial/diagnostic assistance, firms assisted by the centers are required to contribute at least 25 percent of the total cost of all technical assistance in excess of \$10,000, the Federal Government funds the remainder. Contact EDA in Washington for local contact information.

3. Pre-Investment Assistance (Investment Surveys - a direct payment for specified use)

Objectives: To initiate and support through financial participation, the identification, assessment, surveying and promotion of private investment opportunities.

Eligibility: U.S. firms capable of carrying project forward if survey indicates feasibility.

Program Operation and Use: Funds may be provided for the investigation of developmental projects in the private sector of developing countries. Firms of "Fortune 1000" size are eligible.

Application procedure: Letter, followed by discussions. If survey can be encouraged, application instructions will be provided. Range of approval/disapproval time is variable, depending upon size and complexity of project. Range and average of financial assistance: \$10,000 to \$300,000; \$60,000. Regulations, guidelines, and literature: "Investment Financing Handbook," no charge. Federal agency: Overseas Private Investment Corporation.

Contact Information: Melody B. Dill, Information Officer, Overseas Private Investment Corporation, Washington, D.C. 20527; telephone (202) 653-2919.

4. Trade Adjustment Assistance--Workers (a direct payment with unrestricted use)

Objectives: To provide adjustment assistance to workers adversely affected by increase of imports of articles like or directly competitive with articles produced by such workers' firm.

Eligibility: A petition for a certification of eligibility to apply for adjustment assistance may be filed with the Secretary of Labor by a group of workers or by their certified or recognized union or other duly authorized representative. To be eligible to apply for adjustment assistance, it must be determined that (1) a significant number or proportion of workers in such workers' firm have become totally or partially separated, or are threatened to become totally or partially separated; (2) sales or production, or both, of such firm have decreased absolutely; and (3) increases of imports like or directly competitive with articles produced by such workers' firm contributed importantly to such total or partial separation, or threat thereof, and to such decline in sales or production.

Program Operation and Use: Local employment security office is reimbursed to the extent that it provides to eligible workers weekly readjustment allowances, testing, counseling, training, and job placement services. Weekly trade readjustment allowance supplement unemployment insurance for which the worker might otherwise be eligible. Eligible applicants may also apply for job search and relocation allowances. Subsistence and transportation allowances paid only to defray the actual cost of same when applicant is attending training or within commuting distance of a workers' regular place of residence.

Application Procedure: To apply for worker adjustment assistance under the Trade Act of 1974, a "Petition for Adjustment Assistance," ILAB Form 20, may be filed directly with the Department of Labor. Copies of the form are available through state employment security agencies or from the headquarters office listed below. The Labor Department's investigation of a petition is completed and a certification either issued or denied not later than 60 days after filing of the petition.

Range and average of financial assistance: Weekly allowance payments may be up to 70 percent of the beneficiary's average weekly wage, but such payments may not exceed the national weekly wage in manufacturing. The current maximum is \$227 per week. Regulations, guidelines, and literature: 29 C.F.R. 90 and 91; U.S. Department of Labor, "Trade Adjustment Assistance for Workers: Questions and Answers." Federal agency: Bureau of International Labor Affairs, Department of Labor.

Contact Information: Director, Office of Trade Adjustment Assistance, Bureau of International Labor Affairs, Department of Labor, Washington, D.C. 20210; telephone (202) 523-6225. Contact: Marvin Fooks.

5. Business and Industrial Loans (guaranteed/insured loan)

Objectives: To assist public, private or cooperative organizations organized for profit or non-profit, or individuals in rural areas to obtain quality loans for the purpose of improving, developing or financing business, industry, and employment, and improving the economic and environmental climate in rural communities, including pollution abatement and control.

Eligibility: An applicant may be a cooperative, corporation, partnership, trust, or other legal entity organized and operated on a profit or nonprofit basis; a municipality, county, or other political subdivision of a state; or an individual in rural areas. Preference is to be given to those projects in areas other than cities having a population of more than 25,000 and veterans.

Program Operation and Use: For financial assistance by the Farmers Home Administration or in joint financing with other federal, state, private, and quasi-public financial institutions for improving, developing, or financing business, industry, and employment and improving the economic and environmental conditions in rural areas. There are numerous exclusionary criteria.

Application Procedure: Preapplication letter, or Form FmHA 449-1, is used for guaranteed loans and in areas other than cities having a population of more than 25,000.

Application Procedure: Preapplication letter, or Form FmHA 449-1, is used for guaranteed loans and filed at the local FmHA County office. For insured loans, Form AD-621 is used. Range of approval/disapproval time is 60 to 90 days.

Additional Considerations: Matching funds are not required. FmHA insured loans may be made in connection with the funds provided by the applicant or other sources. Applicants are required to provide a minimum of 10 percent equity. Range and average of financial assistance: \$10,000 to \$33,000,000; \$825,000. Regulations, guidelines, and literature: 7 C.F.R. Pt. 1980-A, 1980.1-1980.100; Pt. 1980-E, 1980.401-1980.500, PA-1101, "Business and Industrial Loans;" PA-1142, "Facts for Lenders." Federal agency: Farmers Home Administration, Department of Agriculture.

Contact Information: Administrator, Farmers Home Administration,
Department of Agriculture, Washington, D.C. 20250; telephone
(202) 447-7967.

6. Economic Development--Technical Assistance (project grants)

Objectives: To solve problems of economic growth in EDA-designated geographic areas and other areas of substantial need through administrative and demonstration project grants, feasibility studies, management and operational assistance, and other studies.

Eligibility: Although there are no specific applicant eligibility requirements, most technical assistance applicants are private, nonprofit groups or state, municipal or country governments and U.S. territories or entities thereof, located in economically depressed areas of the country.

Program Operation and Use: Technical assistance is used to provide information, data, and know-how in evaluating and/or shaping specific projects and programs related to economic development. Technical assistance may be in the form of services provided by contract, or direct grants. Infrequently, technical assistance is given to small private business firms; however, this technical assistance must be repaid to the government. This program is considered suitable for joint funding with closely related federal financial assistance programs in accordance with the provisions of OMB Circular No. A-111.

Application Procedure: Submit application to Economic Development Administration regional office. State and local government applicants, use Form ED-357. Nonprofit non-government applicants, use Form ED-357NP. This program is subject to the provisions of OMB Circular No. A-110. Range of approval/disapproval time is one month to three months, or longer.

Additional Considerations: Technical assistance must be related to near-term job and income creation. For grants, contribution by grantee of 25 percent or more of the total cost in cash or in kind is required. Range and average of financial assistance: \$1,000 to \$497,000. Technical assistance projects (including contracts) average \$25,000; grants average \$60,000. Regulations, guidelines, and literature: "EDA Technical Assistance, What It Is, How To Apply." Federal agency: Economic Development Administration, Department of Commerce.

Contact Information: Initial contact should be at the regional office level except for projects which are national in scope, in which case initial contact should be with headquarters office, Beverly L. Milkman, Director, Office of Technical Assistance, Economic Development Administration, Department of Commerce, Washington, D.C. 20230; telephone (202) 377-5111.

Non-Financial Assistance

1. Business Assistance, Services, and Information (advisory service)

Objectives: To provide economic, statistical, and technical assistance and advice, and to serve as a centralized source of specialized data and data analysis to business, government, and the general public concerning industries, commodities, and trade.

Eligibility: Any business, public official, civic organization or private citizen.

Program Operation and Use: This program provides guidance on pending legislation and regulations and provides assistance to a wide range of domestic industries and businesses. This enables the business community to: (1) obtain market assistance concerning government procurement; (2) obtain studies analyzing domestic and international economic growth and future outlooks on specific industries; and (3) obtain information on technical developments and their impact on industry growth markets.

Application Procedure: In person, by letter or telephone.

Regulations, guidelines, and literature: "The U.S. Industrial Outlook," "Construction Review," and other similar releases. Federal agency: Industry and Trade Administration, Department of Commerce.

Contact Information: Bureau of Industrial Economics, U.S. Department of Commerce, Washington, D.C. 20230. Telephone: (202) 377-1405.

2. Export Licensing Service and Information (export control - advisory service)

Objectives: To provide information, assistance, and advisory services to the public and the business community on matters concerning exports of certain products and technical data that require an export license for shipments to foreign countries.

Eligibility: Any person, firm, organization, or branch of government needing information or assistance on export control matters.

Program Operation and Use: Individuals and business firms may obtain information and assistance on the interpretation of export control regulations and policies, when a validated export control license is required; secure expeditious handling of export application when priority action is warranted; and other related matters.

Application Procedure: In person, by letter or telephone. Regulations, guidelines, and literature: Export Administration Regulations; Export Administration Bulletins; Summary of U.S. Export Regulations; Export Administration Semi-Annual Report; Export Control of Technical Data;

Highlights of Export Controls; "Exports by Mail;" daily list of export licenses issued; and "Denial and Probation Orders Currently Affecting Export Privileges." Federal agency: Industry and Trade Business Administration, Department of Commerce.

Program Operation and Use: Services include: (1) assistance in display and sales promotion (trade and industrial exhibits, trade centers, trade development centers and trade missions) and in representing U.S. firms in government agencies at home and abroad; (2) information on trade statistics, foreign tariffs, custom regulations and procedures, market potential in individual countries, and other related activities; (3) advice and counseling on foreign trade and individual overseas markets.

Contact Information: Office of Export Administration, Room 1613, Exporter Service Staff, International Trade Administration, Department of Commerce, Washington, D.C. 20230; telephone (202) 377-4815.
Contact: Archie Andrews.

3. Export Trade Promotion (advisory and promotion service)

Objectives: To encourage local businessmen to enter into and expand their marketing efforts in export trade.

Eligibility: Any U.S. citizen, firm, organization, or branch of government needing information or assistance on international business matters listed under "Program Operation and Use" below.

Program Operation and Use: Services include: (1) assistance in display and sales promotion (trade and industrial exhibits, trade centers, trade development centers and trade missions) and in representing U.S. firms in government agencies at home and abroad; (2) information on trade statistics, foreign tariffs, custom regulations and procedures, market potential in individual countries, and other related activities; (3) advice and counseling on foreign trade and individual overseas markets.

Application Procedure: In person, by letter or telephone. Regulations, guidelines, and literature: "A Basic Guide to Exporting." Federal agency: Industry and Trade Administration, Department of Commerce.

Contact Information: Director, Office of Export Promotion, Room 4001, Trade Administration, Department of Commerce, Washington, D.C. 20230; telephone (202) 377-4231.

4. International Commercial Information (advisory service)

Objectives: To inform U.S. business firms of export methods, benefits, and opportunities and assist them to identify and assess potential overseas trade contacts and opportunities.

Eligibility: Anyone may apply.

Program Operation and Use: Services include: (1) Export awareness counseling and publications to stimulate U.S. business firms to initiate and increase export activities; (2) information on overseas trade opportunities; (3) provides guidance to U.S. businessmen.

Application Procedure: In person, by letter or telephone.
Regulations, guidelines, and literature: "A Basic Guide to Exporting;" "Commerce America." Federal agency: Industry and Trade Administration, Department of Commerce.

Contact Information: Office of Export Marketing Assistance, Export Development, Department of Commerce, Washington, D.C. 20230; telephone (202) 377-5131

5. Bureau of Export Development (advisory and promotion service)

The Bureau of Export Development, one of five bureaus in the Industry and Trade Administration, serves as the U.S. Department of Commerce primary source of assistance for U.S. companies seeking to initiate or expand exporting.

The Bureau consists of the Office of Export Marketing Assistance; Office of Country Marketing; Office of Export Promotion; and Office of Export Planning and Evaluation.

The Office of Export Marketing Assistance serves as the Bureau's primary communications link with the U.S. business community.

The Office of Country Marketing is primarily responsible for the collection and analysis of foreign market commercial and economic data; provides principal direction and coordination for scheduling of foreign market trade promotion events and is the source for individual country marketing counseling.

The Office of Export Promotion manages the U.S. Export Development Offices abroad and provides the principal guidance for exhibitor recruitment, staffing and management of trade promotion events in foreign markets.

The Office of Export Planning and Evaluation provides principal direction in the areas of management, systems development, allocation of resources, evaluation of program effectiveness, budgeting and market research.

Contact: Jonathan Menes
Telephone: (202) 377-5055

6. International Trade Administration (ITA) of Commerce

Stages overseas commercial exhibitions of U.S. products and conducts trade missions, catalog exhibitions and sales seminars abroad to introduce U.S. manufacturers directly to foreign buyers; collects "free-world" commercial and marketing information; maintains a corps of Foreign Commercial Service officers, stationed in countries around the world, to assist U.S. traders in those countries and to gather information; manages the U.S. Commercial Service, a network of commercial export centers throughout the United States; operates the Worldwide Information and Trade System (WITS), a computerized international marketing information system that links our U.S. and foreign commercial services; analyzes and advises U.S. business on international regulations and practices affecting investment abroad, and monitors and analyzes foreign direct investment in the United States; and supports the economic well-being of the U.S. textile industry, domestically and internationally, by negotiating and monitoring bilateral import agreements and conducting a U.S. textile and apparel export expansion program.

7. Countervailing Duty on Imports (complaint investigation)

Objectives: To protect domestic industry from unfair competition by imports that benefit from bounties or grants bestowed by foreign governments or associations.

Eligibility: Any person who has reason to believe that any bounty or grant is being paid or bestowed on imported merchandise subject to duties may communicate his belief to the Commissioner of Customs.

Program Operation and Use: Petitions by domestic industry are investigated. If the Secretary of the Treasury determines a bounty or grant is being bestowed on imported dutiable merchandise, or duty-free merchandise in certain cases, countervailing duty is assessed on importations of this merchandise from the bestowing country. The duty is intended to offset the unfair competitive effect of the bounty/grant.

Application Procedure: The petition should be filed in accordance with 19 C.F.R. 159.47. A preliminary determination must be published within six months of receipt of the petition, and final determination within 12 months of receipt of the petition. Regulations, guidelines, and literature: Customs Regulations, 159 (19 C.R.F. 159). Federal agency: United States Customs Service, Department of the Treasury.

Contact Information: United States Customs Service, 1301 Constitution Avenue, Washington, D.C. 20229. Inquiries should be directed to R. Resettie, Acting Director, Duty Assessment Division, U.S. Customs Service, Room 4114, 1301 Constitution Avenue, N.W., Washington, D.C. 20229; telephone (202) 566-8121.

8. Import Relief (a specialized service to offset import injury)

Objectives: To provide tariff adjustment to industries and/or adjustment assistance to firms and workers in the industries adversely affected by imports.

Eligibility: Action may be initiated by the President of the United States, the Special Representative for Trade Negotiations, the Committee on Finance of the Senate, the Committee on Ways and Means of the House of Representatives, the International Trade Commission, or a trade association, firm, certified or recognized union, or other representative of an industry producing an article like or directly competitive with a foreign article which, it is claimed, is being imported into the United States in such increased quantities as to be a substantial cause of serious injury or the threat thereof, to the domestic industry.

Program Operation and Use: On the basis of the research and findings of the International Trade Commission, the President may impose additional restrictions to protect industries adversely affected by imports.

Application Procedure: A conference with the staff of the International Trade Commission is recommended. Petitions are submitted to the Secretary, U.S. International Trade Commission, in accordance with the Commission's Rules of Practice and Procedure, particularly Part 206, subpart B. International Trade Commission investigation is completed within six months of initiation. Regulations, guidelines, and literature: 19 C.F.R. 206.1-206.20; U.S. International Trade Commission Rules of Practice and Procedure. Federal agency: U.S. International Trade Commission.

Contact Information: Kenneth R. Mason, Secretary, U.S. International Trade Commission, 701 E. Street, N.W., Washington, D.C. 20436; telephone (202) 523-0161. This office should be the initial contact of a prospective applicant.

9. Other Sources of Aid - Legislation

Two recent legislative actions by Congress may hold promise as additional sources of aid to assist the domestic textile machinery manufacturers to compete effectively with foreign producers.

- a) The Educational Amendment Act of 1980 (PL96-374) was passed and signed into law and \$7.5 million was authorized annually through fiscal 1985 to support private sector efforts to establish international business training courses for graduate students as well as businessmen to generally improve understanding of the international business environment. The four-year program is designed to help universities educate U.S. businessmen in language and intercultural communications. The measure was prompted by allegations that over 1,000 major U.S. corporations cannot do business effectively overseas because of the lack of foreign language and culture training.

Technically, the measure authorizes grants to be made by the Secretary of Education to universities who would then enter into cost-sharing contracts with the private sector. An appropriation has not yet been made in the current budget to cover these grants.

Specific reference to the legislation may be found in Part B, Section 611-613 of PL96-374. The legislation notes that world trade councils, world trade clubs, chambers of commerce and State Departments of Commerce are not adequately used to link universities and business for joint venture exploration and program development. Therefore, this legislation is designed to promote the linkages between such institutions and the American business community engaged in international economic activity. Specific provision is made for the development of research programs on issues of common interest to institutions of higher education and private sector organizations and associations engaged in or promoting international economic activity.

Further information can be obtained from the Subcommittee on Select Education of the Committee on Education and Labor of the House of Representatives (telephone: 225-5954).

- b) The second piece of legislation that may hold promise for future assistance to textile machinery manufacturers is the Stevenson-Wilder Technology Innovation Act of 1980 (96-480). A provision under the Act authorized four new programs in the U.S. Department of Commerce designed to increase cooperation among business, labor and government.

The following describes in more detail the four Commerce Department initiatives:

Establishment of Generic Technology Centers: Under a \$5.2 million authorization, three generic technology areas have been selected in an effort to promote significant technological advances in the field - powder metal processing, welding and joining, and tribology (friction, wear and lubrication).

Each center will be a non-profit organization governed by a Board of Directors elected by the private sector sponsors. Industry and government will jointly finance the centers, with the government's share of the cost being up to 80 percent of a center's cost during the first five years of operation. The research agenda and other program activities undertaken by a center will be established by the private sector.

Establishment of a Center for the Utilization of Federal Technology: The purpose of the center is to establish mechanisms to effect transfers of technology from the government to the private sector. A fellowship program will be established in which commercial development teams from industry will work with individuals in federal laboratories, analyzing and assessing federally developed technologies to determine commercialization possibilities by the private sector.

Establishment of a Productivity Reference Service: Working with the private sector, the Service will help develop and disseminate industrial productivity "success" stories via case studies, seminars and conferences for individual firms and industries.

Establishment of two Corporations for Innovation Development: These corporations will be established to provide initial capital for technology-base, high risk, promising firms. The corporations will provide capital to such firms at stages of their development for four conventional funding sources which would be willing to provide financing, and the corporations will be state-sponsored, non-profit corporations. In addition to providing critically needed initial capital, the corporations will provide and/or arrange for financial packaging, management, and technical assistance. The \$4 million for this program will be available in FY 1981 through the Commerce Department's Economic Development Administration.

PART FOUR

CONCLUSION

Assuming the industry successfully undertakes the technological and marketing recommendations herein, and positions itself to improve sales at home and abroad, those sales will not be consummated if the U.S. private and public banking sectors continue their current practices. The U.S. textile machinery industry simply has insufficient resources to compete with the financial practices of other nations. This may be the singlemost crucial factor affecting the competitiveness of the industry, worldwide.

During the study's course, the grantee, ATMA, has given all U.S. textile machinery manufacturers notice of the effort and of progress review seminars that took place in July and October 1980. Significantly, even as this report was in its final stages of preparation, the industry interest was such that a third "how-to-use" seminar was conducted in February 1981.

ATMA bodies will continue to study the report's contents for months, and plan all-industry programs as deemed appropriate and affordable. Likewise, it is anticipated individual firms will do the same.

The work by all subcontractors was performed at least satisfactorily, and in most instances with greater payback than was anticipated, and within the budget framework. For example, the interface with North Carolina State University's Textile School has produced a better working relationship, completed image projects, and more in the planning stage.

It is noteworthy also, that even before the study was complete, ATMA received The President's "E Star" Award for continued export service to the industry.

Industry executives who have monitored study progress have said the worldwide technology and marketing assessments and the detailed market identification go far beyond any resource available to them. In fact, some industry marketing executives have told ATMA staff this study bears out the wastefulness of past, privately commissioned studies.

The comparative technological and marketing assessments finitely reveal areas of weakness and strength, by product segment, and by world market, and in so doing, recommend corrective actions.

ATMA executives report the utility of the study presents a two-edged sword. They are concerned that, as a public document, it will fall into the hands of European and Japanese competitors, thereby defeating the very purpose of the study.

During the later stages of the study, ATMA followed study recommendations by hosting a Chinese delegation in the U.S. and immediately thereafter participating in Department of Commerce's China '80 in Beijing. The results were successful.

In the composite, there is little doubt the study spawned worldwide cooperative interest in the initiative being exhibited by the U.S. textile machinery industry and, in turn, the input is of such useable quality that U.S. textile machine makers will apply it immediately for improved products and increased sales at home and abroad.

The study is certain to spawn long-term company all-industry technical and marketing programs and projects during the next several years. It will not be ignored because it simply contains too much valuable data and too many extraordinary recommendations.

Likewise, the industry is likely to favorably respond to many of the study's recommendations for cooperative programs with government and with one another through ATMA.

This report reveals that a low image of U.S. textile machinery is not warranted. U.S. producers are world leaders in certain segments of textile machinery; and still well over 50 percent of the textile machinery consumed in the U.S. is of U.S. origin. Perhaps, some of the decline of the last two decades is the result of a "fad" to buy foreign. Certainly, if there is not a reversal of this trend, U.S. millmen run the risk of becoming hostages to off-shore technology. The study suggests ways to prevent this.

ATMA was unable to maintain EDA's reporting schedule the concluding weeks of the project due to the unanticipated, but welcome, mushroomed dimensions of the final work products. The association's involved committees and executives have received all work products to review for gross omission or errors, and have found none. It will take months to truly complete the evaluation and combing process and finalize programs and projects based on this process. From its early stages the study revealed and spawned industry projects that are now completed or in process.

One measure of the study's cost/benefit value is to weigh total expenditures against number of U.S. textile machinery establishments. While the substantial majority of the 640 U.S. firms produce parts and supplies, as opposed to complete machines, this study has a bearing on the future of all. The study provides data and a focus that are simply impossible for the vast majority of firms to fund or acquire other than by this collective approach. The total cost of the study equates to less than \$650 per company!

As was stated several times in preceding pages, erroneous conclusions can result by total dependence on this study, or any parts of it.

Developing, making and marketing textile machinery is situational. There is no magic formula. What is right for one machine maker, may be wrong for another. What is the right machine for one millman, may be wrong for another. It's all situational. This report can help its readers narrow options in a situational context, to become more competitive immediately, and in the coming years.

BROOKS LEATHER SPORTSWEAR, INC.
Oak Park, Mich., February 9, 1983.

Hon. SAM GIBBONS,
Chairman, Sub-Committee on Trade,
Washington, D.C.

DEAR SIR: I am writing on behalf of the continued funding of the Trade Assistance Act in the coming year.

During 1980-1981, Brooks Leather Sportswear participated in this worthwhile program as an "Import Impacted Company." We found the assistance available under this program to be most instrumental in shaping the tremendous growth we have experienced in the last 2 years.

I wish to bring to your attention the technical assistance element of the T.A.A. as being of highest priority to companies and their respective employees. As a direct result of the technical assistance received through this program, we were able to develop and implement a recovery plan with a resultant increase of approximately 20% per year in our gross sales, productivity and an increase in the number of our employees.

An example of the valuable contribution of the T.A.A. was in the purchase of a computer. As you may know, companies of our size do not have the skills to make the necessary judgments with regards to computerization. Through the technical assistance element of the T.A.A., we were able to bring in a Computer Science Professional who analyzed our needs, developed an R.F.P., and evaluated the various vendors and systems and helped us make the appropriate selection.

In conclusion, let me restate the importance of the continued funding of the T.A.A. to our company, to our employees and to our consumers. I urge your support for continued funding of the Trade Assistance Act.

Sincerely,

STEVEN WEISS,
Brooks Leather Sportswear.

DENTON VACUUM, INC.
Cherry Hill, N.J., February 9, 1983.

Hon. DANIEL ROSTENKOWSKI,
Chairman, House Committee on Ways and Means,
Washington, D.C.

DEAR CONGRESSMAN ROSTENKOWSKI: The Reagan Administration has recommended that Trade Adjustment Assistance for firms be eliminated for firms such as mine. We disagree with the President's proposal and ask for your support to continue the program.

Many U.S. manufacturers have been hurt by foreign products and are trying to keep their businesses going. Denton Vacuum, Inc. is a producer of laboratory equipment, high vacuum optical equipment, and optical coating services. In 1980 we had 150 employees, yet foreign competition has reduced that to 100 workers. We have been working with the New Jersey Trade Adjustment Assistance Center to put together a plan to help us to be more competitive in the marketplace. The New Jersey TAAC offers consulting assistance to identify our problems, improve our operations, save jobs, and allow us to remain in business.

I ask you to give your support to the TAACs and help keep domestic small to medium-sized businesses competitive.

Sincerely,

PETER R. DENTON,
President.

STATEMENT OF SOL C. CHAIKIN, PRESIDENT, INTERNATIONAL LADIES' GARMENT WORKERS' UNION, AFL-CIO

This statement is submitted on behalf of the International Ladies' Garment Workers' Union and its nearly 300,000 members who produce women's and children's apparel. The high degree of import penetration in our industry—69 imported garments in 1982 for every 100 made here—helps explain our deep concern with the effectiveness of federal programs relating to foreign trade. The very survival of our industry and the jobs of garment workers are at stake.

The federal role vis-a-vis apparel imports is multi-faceted. Each part of the program plays a key role. There is a need for the collection of adequate information about trade and a need for proper analysis of this data. There is a need for proper negotiation of agreements limiting apparel imports with the various exporting na-

tions and the need for adequate administrative and enforcement machinery. Finally, there is a need for ameliorative programs when imports cause harm to domestic industry and a destruction of jobs. These tasks cannot be accomplished without adequate funds. We urge, therefore, that this Subcommittee reject any proposals for budget cuts in this area and instead seek to insure that adequate funds be provided. Specific comments on a number of vital programs follow.

CUSTOMS SERVICE

We are shocked that it is contemplated to further reduce the Customs Service budget by \$13 million in fiscal year 1984, and to reduce staff by 1,800 persons. Such a cut would cripple the Service's ability to properly perform its functions. The result would be major injury to the nation and in particular to the textile and apparel industries. This is one area where cuts are self-defeating since Customs is also a source of revenue.

The Customs Service has many functions relating to apparel imports. One is the collection of the proper amount of duty on merchandise entering the United States. In the apparel field the decisions are complex and errors can be exceedingly costly to the government. For example, the duty on certain woven cotton apparel is 8 percent if the garments are not ornamented but 29 percent if they contain ornamentation. Determining whether ornamentation is present is a fine art, requiring skill, knowledge and careful inspection. An erroneous classification can cost the United States Treasury \$21 for each \$100 worth of goods so imported. Such errors are not small matter considering that billions of dollars worth of apparel enter the country each year.

Customs is also responsible for determining the duty on products assembled abroad of U.S. components and returned to the U.S. under provisions of Item 807.00 of the Tariff Schedules. This requires careful analysis of documentation to determine the value of the U.S. component and that of the final product. It is subject to frequent error and misrepresentation by the importing party. Staff reduction will encourage violation and loss of revenue.

Lastly, Customs is responsible for enforcement in the field of the Multifiber Textile Arrangement and the bilateral agreements negotiated thereunder. This requires accurate determination of the correct classification of entering goods so that they may be charged to the correct quota line. Customs must also determine whether the actual country of origin has been indicated. There have been many instances where shippers find that a given quota is filled and resort to subterfuge as to either product or country of origin classification in an attempt to evade the quota. An article in the *Women's Wear Daily* on January 6, 1982 reported that 30 million dollars' worth of jeans made in Hong Kong were shipped to the U.S. via Indonesia and Singapore to evade quotas. Clearly this is not a minor problem. If anything, the Customs staff devoted to enforcement of U.S. textile and apparel programs should be increased to prevent violations and to avoid injury to American firms and workers.

COMMERCE DEPARTMENT PROGRAMS

Negotiation of agreements covering shipments of apparel and textiles and the careful administration of concluded agreement require basic statistics and analysis of imports and domestic production. Up to date information on potential import threats and on disruption of domestic markets is most essential in this connection. It is, therefore, of great importance that Commerce Department functions relating to textiles and apparel be maintained, and, indeed expanded. This includes import control programs as well as those related to the expansion of exports.

TRADE ADJUSTMENT ASSISTANCE

The proposal to reduce the budget for trade adjustment assistance from \$54 million in fiscal year 1983 to \$2 million in fiscal year 1984 is in effect a death sentence for this program. Yet, such assistance is needed now more than ever.

Trade adjustment assistance is more than merely a program to help workers injured by imports. It was a recognition by the government that if the nation or certain industries stood to gain from tariff reductions or other measures that led to increased imports in other sectors, then it was the responsibility of all to help ameliorate the damages caused.

It was the hope that this program would help displaced workers ultimately find other employment by providing benefits including, where needed, assistance in training or relocation. Even with the continuation of the program it would have been difficult to find sufficient alternative jobs for workers at a time when the nation has 17,000,000 unemployed, discouraged or partially employed workers. To

eliminate the program now is doubly cruel as well as the breaking of a compact with the American worker.

We strongly urge the Congress to restore this program and see that it is adequately funded. The pre-1981 benefit formula should be restored, permitting benefits whenever imports are "an important cause" of unemployment rather than "the most important" cause. The 1981 change virtually destroyed the chances of workers qualifying for benefits since it was practically impossible to prove for a garment firm that imports are the most important cause of a firm's demise or cutback in operations.

STATEMENT OF VINCENT L. CONNERY, NATIONAL PRESIDENT, AND JERRY D. KLEPNER,
DIRECTOR OF LEGISLATION, NATIONAL TREASURY EMPLOYEES UNION

Mr. Chairman and distinguished members of the Subcommittee:

As the exclusive representative of over 125,000 Federal workers, including all employees of the U.S. Customs Service worldwide, we are pleased to appear before you today to discuss the authorization of appropriations for the U.S. Customs Service for Fiscal Year (FY) 1984.

The Trade Subcommittee's annual review of Customs' programs and resources has proven invaluable to ensuring effective congressional scrutiny of the Administration's funding requests for this vital law enforcement agency. As the Subcommittee well knows, countless national interests have a stake in effective enforcement of our Customs laws, including business, labor, agriculture, and the travel and tourism industry. Moreover, our country's long-term health and security depends upon effective policing of our borders, halting the flow of critical technology to unfriendly nations, and interdicting the illicit drug traffic that has such a crucial effect upon the level of violent crime.

We cannot protect these interests and achieve these goals without providing Customs with adequate capability for enforcing the Customs laws. In recent years, this has required a gradually increasing level of resources, because of the strong growth of international trade and tourism, the need to protect our domestic automobile and steel industries, the escalating drug threat, and our strategic interest in export control. The key question then is: "How much is enough?" To answer this question, we need to

weigh the cost of additional resources against the costs to society of inadequate enforcement of the Customs laws.

Under the Reagan Administration, the Office of Management and Budget has basically opted to shut its eyes to the growing Customs workload and the costs of law enforcement to our vital interests. In each of the Reagan budgets for the Customs Service, in FY 1982, FY 1983, and sadly FY 1984, OMB has chosen to keep the total appropriation for the Service at essentially the same level as the previous year. This has forced OMB to propose huge personnel reductions in order to maintain essentially constant outlays.

These Reagan budgets, which called for a decline in the level of real Customs resources in the face of a growing workload, were totally unrealistic and were so perceived by Congress and the travel and trade communities. Last year, OMB recommended a reduction of 2,600 permanent positions, including 1,200 Inspectors, in order to maintain funding at the level of \$499 million. With this Subcommittee in the lead, Congress decisively rejected this budget by restoring all the positions cut and providing additional funds for export control and narcotics enforcement, with a funding level of \$544 million. Including the supplemental for pay and the new Medicare tax, the FY 1983 total funding level is \$571 million.

The Administration's request for Customs in FY 1984 is cast in the same fiscal straitjacket as last year. This budget contains some welcome increases which we have long advocated, such as additional funding for Operation Exodus, drug enforcement, and procurement of a second air module for air patrol operations.

However, these increases are paid for by offsetting reductions in personnel totaling 2,000 positions, including 320 Inspectors, 300 Import Specialists, and 100 Patrol Officers. In addition, OMB proposes a further cut of 170 Inspectors because of a decrease in reimbursable funds, which stems mainly from a reduction in the Department of Agriculture's appropriation (the Animal and Plant Health Inspection Service of DOA reimburses Customs for a certain number of Inspector positions used to perform agriculture protection functions). The total FY 1984 funding level requested by OMB is \$578 million, a mere \$7 million above the FY 1983 authorized level with supplemental.

We can see in this budget very clearly the effects of a freeze in the dollar level of this agency's spending. The freeze requires an actual cut in real resources of \$80 million (the dollar cost of 2,170 positions) or 12 percent. Measured in terms of the decrease in positions, the real reduction is 15 percent of total staff-years. In addition, RIF costs totaling \$20 million would be incurred, including funds for severance pay, annual leave and unemployment compensation.

We have computed that a maintenance budget for FY 1984, which provides for the program increases proposed by the Administration, and fully restores the reduction of 2,170 positions, is \$60 million above the Administration's request. This maintenance budget would allow \$639 million and 13,913 average positions and would save \$20 million in RIF costs.

However, such a budget makes no provision for workload growth at the nation's air, land, and sea ports, or for improved border enforcement against the escalating threat of drug-runners and illegal immigrants. Consequently, NTIU recommends an

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additional \$15 million above the maintenance budget, to provide for an additional 200 Inspectors, 150 Import Specialists, and 50 Customs Patrol Officers. We believe this budget to be the minimum essential requirement for effective Customs operations in FY 1984, and we strongly recommend that the Subcommittee authorize our budget of \$654 million and 14,318 average positions.

To summarize, the NTEU recommended budget would:

- restore the 2,170 positions recommended for elimination by the Administration;
- fully fund the program increases for Operation Exodus, the Summer Olympics, organized crime drug enforcement, second air module, and ADP equipment supported by the Administration;
- provide for an additional \$15 million and 400 average positions for personnel in critical line functions where there is presently a huge gap between workload and resources.

Mr. Chairman, the NTEU recommended budget is \$75 million above the President's budget request for Customs. This is a large amount. However, we would like to stress that all but \$15 million of this amount would be used to restore 2,170 positions recommended for elimination by the Administration. The seemingly large increase we have recommended is due to the totally unrealistic reductions proposed by the Administration -- reductions that were decisively rejected by the Congress in the FY 1983 Continuing Resolution passed a scant 60 days ago.

In your deliberations on whether to adopt the NTEU proposal, or to accept some or all of the cuts proposed by the Administration, we ask the Subcommittee to keep in mind the following points.

First, the FY 1983 budget approved by Congress provided the first increase in Customs resources in eight years. From FY 1975 to FY 1983, Customs resources remained essentially static (see Table 1 appended to the end of our testimony) despite a 65-80 percent growth in workload during that period. The increase made in FY 1983 went almost entirely to two new programs, Operation Exodus and the South Florida Drug Enforcement Operation.

Second, NTEU has consistently maintained, and the reports of this Subcommittee and the General Accounting Office have confirmed, that for almost a decade Customs has been stretched thin by a growing imbalance between workload and resources, leading to wide areas of minimal enforcement or non-enforcement. Examples are inadequate controls over outbound shipments, only general supervision of cargo unloading, inspection of barely .3 percent of containerized shipments which comprise 70 percent of seaborne cargo, reduced oil import gauging, and a virtual "honor system" for yachts and boats entering our seaports. These conditions, which still exist despite the additional resources provided in FY 1983, are symptomatic of a general breakdown in enforcement that will require several years of growing resources to correct.

Third, Customs is a revenue-producing agency which collects an average of \$19 for every dollar spent. An incremental increase in Inspectors or Import Specialists would yield a minimum return of 3 to 1, according to Customs. GAO studies have indicated that much revenue is lost from inadequate inspection of containerized cargo and inadequate verification of merchandise entries. The evidence strongly indicates that Customs is definitely operating at resource levels where additional staff would yield revenue increases greater than their cost.

Fourth, while it may be tempting to make economies, as has been the practice in recent years, at the expense of a law enforcement arm such as the Customs Service, in the long run this is extremely unwise because reductions only rebound as increased costs in other parts of Federal, State, and local budgets.

The Administration's FY 1984 budget proposal would result in the wholesale dismantling of the protections afforded the American manufacturer, the American worker, and the public through effective enforcement of the Customs laws. Once again the burden is on Congress to formulate a rational policy, and to begin this year by providing essential resources to eliminate congestion at our ports of entry, stem the decline in enforcement, and lay the foundation for a modern, effective Service in the future.

We welcome the opportunity to participate in this task as the representative of the thousands of dedicated Customs employees whose service is of inestimable value to the nation, yet who have been remarkably ill-served by this Administration.

In the remainder of our testimony, we would like to call attention to the manner in which our society and economy are dependent upon Customs law enforcement, and the social and economic costs of inadequate enforcement. We would then like to discuss each of the principal areas of Customs activity -- Inspection and Control, Tariff and Trade, and Tactical Interdiction -- in some detail, reviewing major problems and issues in each. We will conclude with our recommendations for an alternative budget for Fiscal Year 1984.

Social and Economic Costs of Inadequate Enforcement

As the nation's principal border enforcement agency, Customs is responsible for processing the flow of merchandise and travelers at over 300 ports of entry, and for interdicting the movement of illegal narcotics and contraband between these ports. With approximately 15,000 full- and part-time personnel, Customs watches over a frontier that is 26,000 miles in length as the crow flies, and 100,000 miles if measured by the length of the tidal shoreline.

In recent years, as the economy has become increasingly open to foreign trade, international travelers have visited our country in record numbers, and illegal narcotics traffic and immigration has risen, the challenge to Customs enforcement has increased and brought with it a requirement for additional resources. The question then becomes one of weighing the cost of the additional resources against the costs to society of not adequately enforcing the Customs laws. The following are important national interests protected by Customs, where lax enforcement would be extremely costly to the economy and society.

1. Controlling the Export of Critical Technology

Until recently, one of the largest areas of Customs staffing deficiency was the outbound clearance of exports. Faced with a rising tide of imports, the resources for monitoring exports were gradually withdrawn. Even spot-checks of outbound shipments were seldom made.

The costs of such negligence have now been driven home by the discovery by the Federal Bureau of Investigation of a

pervasive pattern of activity by Soviet agents to pry away the secrets of American high technology by means of bribes and other inducements to obtain products on our export control lists. Their targets are lasers, fiber optics, computers, and telecommunications equipment.

In addition, the importance of technological competition in maintaining ascendancy in the world economy has led to cases of industrial espionage, such as the well-publicized Japanese attempt to steal the trade secrets of the International Business Machines Corporation.

In 1980, the president of Spawr Optical was convicted of shipping about 50 high-energy laser mirrors to a laser research laboratory in Moscow. After being denied an export license for shipment of the mirrors, Spawr deliberately understated their value to the Customs Service and made the delivery through Swiss and West German intermediaries.

Two top officials of a California computer firm were convicted in 1980 of shipping more than \$1 million worth of computer machinery to the Soviet Union without a license. The machinery was crated with air conditioners and washing machines and sent through Germany and the Netherlands to Moscow.

In January, 1983 a former CIA official and two business associates were indicted on charges of conspiring to sell a \$5 million diesel engine assembly line to the Soviet Union in violation of U.S. export laws. The charges were the result of an undercover sting operation run by the Customs Service through a fictitious Paris-based company, as part of Operation Exodus.

Similar charges have also been filed against a Canadian firm and two of its executives alleging they conspired to ship tank

engines to Iran. This investigation was also part of Operation Exodus, but originated in documents discovered by an alert Inspector at Dulles Airport.

Operation Exodus was initiated by Customs in late 1981 to step up enforcement of the export control laws, The Export Administration Act of 1979 (50 U.S.C. 2401), and The Arms Export Control Act (22 U.S.C. 2778). The program began as an experiment with 130 Inspectors, Customs Patrol Officers, and Special Agents operating as three-person teams to conduct spot-checks of outbound shipments and follow up investigative leads at ten ports of entry. The program has proven successful thus far, and has been expanded through increased funding provided in both the FY 1983 and 1984 budgets.

Counting the FY 1984 increase, Operation Exodus is now being funded at the \$30 million level, whereas just a year ago outbound inspection was virtually non-existent. Clearly, the Reagan Administration has concluded that the cost of providing the necessary resources is far outweighed by the cost to the nation of illegal exports of critical technology.

This conclusion is supported by the findings of the Senate Permanent Investigations Subcommittee after a two-year inquiry. The Subcommittee report found that the Soviets are engaged in a massive effort to acquire Western technology by any means, and the Soviets have been able to use such technology to modernize and speed the development of military weapons systems. Naturally, such advances entail countervailing responses by our own military establishment, and this increases the size of our defense budget.

A highly classified Defense Department document, which was reported on by columnist Jack Anderson in an article, "High-Tech Pipeline to Moscow" in the December 26, 1982 edition of the Washington Post, listed notable successes by the Soviet intelligence community in 13 key technology areas, including electro-optic sensors, radar, anti-submarine devices, propulsion, material alloys, energy storage, navigation, lasers, aircraft and electronic components, signal processing, micro-electronics, and computers. Given the extensive range of Soviet technological espionage, it seems reasonable that the loss of such strategic information could eventually add billions to the U.S. defense budget.

The Senate Permanent Subcommittee on Investigations has called for a stronger enforcement effort to halt the export of high technology to our nation's enemies. We urge the Trade Subcommittee to take a close look at this area, and provide the resources for an adequate export control program. Given the huge dimensions of the problem, and the many ways of obtaining U.S. military and industrial secrets, it is quite conceivable that a program on the order of \$50 to \$100 million would be a bargain when compared to the additional costs to defense of the loss of critical technology.

2. Interdicting the Drug Trade

The retail value of illicit drugs supplied to the U.S. market in 1980 is estimated by the National Narcotics Intelligence Consumers Committee (a task force of the principle Federal agencies concerned with the drug problem) to be \$70-\$90 billion,

more than the combined profits of the Fortune 500 companies and double the volume of drug sales two years earlier. Today in America there are an estimated 492,000 heroin addicts, 25 million people who use marijuana at least monthly, 10 million cocaine abusers, and more users of dangerous pills such as quaaludes than ever before.

Approximately 90 percent of the drugs abused in this country come from abroad, including all of the heroin, cocaine, hashish, and 93 percent of the marijuana. According to the House Select Committee on Narcotics Abuse and Control, no more than 10 percent of this drug traffic is interdicted. In 1980, an estimated 44 metric tons of cocaine entered this country; of this amount, 3.5 metric tons, or 8 percent, was seized by drug enforcement agencies. Only about 6 percent of the 4 metric tons of heroin entering the U.S. in 1980 was interdicted.

The regional impact of the illicit drug traffic is particularly severe in the Southeastern United States. An estimated 70 percent of the cocaine, 80 percent of the marijuana, and 90 percent of the quaaludes smuggled into the U.S. come through Florida, Georgia, and the Carolinas. In Florida alone, the drug traffic is the highest in the nation, estimated at \$7-\$10 billion annually. Georgia is the third highest state in drug traffic (ranking just behind Texas). As Federal and State enforcement efforts have been stepped up in Florida, drug runners have shifted their operations to Georgia, the Carolinas, the Gulf Coast, and Virginia.

When one considers events of the past year, it is no exaggeration to say that the entire Southeastern part of the

country is now in the throes of crime and corruption fostered by the lucrative profits of the drug trade. Miami's drug wars and epidemic of violent crime is well known. In Georgia, law officers have been offered sums up to \$50,000 to look the other way when drug shipments arrive by air or sea. During the past year, undercover operations by State and Federal agents have led to the arrests of a Georgia State Senator who promised drug smugglers carte blanche if they financed his bid for governor, six sheriffs and ex-sheriffs, two police chiefs, two county commissioners, six deputy sheriffs, two state troopers, nine police officers, a police narcotics squad secretary, one agent with the Georgia Bureau of Investigation, one county prison warden, two deputy prison wardens, a state forest ranger, and eight Coast Guard sailors guarding the coast against smugglers (reported by Art Harris in the Washington Post, June 15, 1982).

During last October alone, Georgia authorities recovered \$600 million worth of cocaine in duffel bags dropped from planes into cow pastures in the Northern part of the State. The large number of remote landing areas and the dearth of law enforcement officers in rural parts of the state, combined with the escalating drug threat, caused Governor George Busbee to order the Georgia National Guard to use its planes and helicopters as part of the state's anti-drug smuggling force. The Governor's order, which went into effect last November, tripled the state's capability for intercepting illegal drug shipments and made control of drug trafficking the highest priority for all law enforcement agencies in the state.

In North Carolina, the head of the FBI's Charlotte office, Robert L. Spence, has called narcotics traffic there "the number-one growth crime today". Virginia, too, has experienced increased drug traffic by air and sea, prompting Governor Charles Robb to propose to the state legislature last December that the National Guard be used in the fight against drug traffickers. According to the Governor, his proposal was prompted by a statewide surge in drug-related crimes caused in part by the growing presence of Florida and South American-based smugglers in Virginia's coastal waterways.

The high rate of drug use in the nation is intimately linked with the rate of violent crime that has been plaguing our citizens. According to the Attorney General's Task Force on Violent Crime, one of the recurrent themes of its hearings was the importance of more effectively combatting narcotics traffic. "From Washington to Los Angeles, from Detroit to Miami, we have heard drug officials and scholars stress the connection between drugs and violent crime," the Task Force stated. Law enforcement authorities estimate that between 40 and 60 percent of all serious crimes occurring in the United States during 1981 are drug-related.

The number of reported crimes in the country increased 9 percent between 1979 and 1980, reaching an all-time high in the latter year and maintaining this level in 1981. In 1982, it appears that total reported crime may have receded about 5 percent, but this is no cause for complacency. In an address last fall at the Justice Department, President Reagan stated that "crime today is an American epidemic. It touches nearly a third of the American homes and results in about \$6.8 billion a year in financial losses."

In addition to the social costs of violent crime, the burden of drug use has a significant impact on the nation's health care system, the employment market, and social services. All of these impose direct costs upon Federal, State, and local budgets. For example, in 1980 there were 32,000 admissions to Federally-funded drug treatment programs associated with heroin and cocaine use alone. In a study completed for the State of New York, former Health and Human Services Secretary Joseph Califano estimated last year that the cost of drug addiction in terms of health care and lost work days was more than \$40 billion a year. Califano also made public the results of a Rand Corporation study that showed that prison inmates addicted to heroin (a \$50-a-day habit) had committed six times as many robberies, ten times as many burglaries, and four times as many thefts and assaults as non-addicted inmates.

In the face of this evidence, there is little doubt that a much stronger drug enforcement effort is needed if the nation is to be spared the extraordinary economic and social costs of rampant drug abuse and violent crime. While evidence indicates that marijuana use appears to be leveling off, cocaine and heroin use have risen sharply in the past two years and have reached epidemic proportions in our Eastern Seaboard States.

The Administration's own Task Force on Violent Crime has called for a "clear, coherent, and consistent enforcement policy with regard to narcotics and dangerous drugs," to include "a border policy designed to effectively detect and intercept the illegal importation of narcotics." The Task Force stated:

"We wish to emphasize that the Federal government's first priority should be to provide adequate resources to its own offices which are involved in fighting violent crime."

Yet the Customs Service, which is on the front line in this struggle as the nation's principle border enforcement agency, is to be reduced by 1,436 staff-years in its Inspection and Tactical Interdiction resources under the Administration's budget proposal. We believe that to propose a reduction in the number of Customs Inspectors and Patrol Officers while the drug threat remains critical is the height of irresponsibility. Considering the huge costs the drug trade is imposing on our society, we believe the most prudent course of action would be for the Congress to completely restore these positions and augment them by a minimum of 250 additional personnel.

3. Enforcing the Trade Laws

It has become increasingly evident in recent years that the ready access of foreign manufacturers to markets in this country is costing American jobs. Imports have added significantly to unemployment, and rising unemployment has strained the ability of Federal, State and local budgets to provide needed welfare, job retraining, and social services.

Enforcement of the nation's trade laws protects the American economy by preventing the entry of merchandise without payment of the appropriate duty, or outside an established import quota. By assessment of countervailing duties, American firms are protected from unfair (subsidized) foreign competition. Entry is also barred for products which violate the patents or copyrights of

American firms, or violate laws designed to protect the public health and safety or the environment.

U.S. Customs Service Inspectors and Import Specialists have been a bulwark in protecting our economy against an avalanche of government-subsidized foreign steel, which surged to record levels in 1981. Last year, European Common Market countries were selling carbon steel products in the U.S. at \$500 a ton, with a government subsidy of \$130 a ton. Our domestic steel industry has been operating at 31 percent of capacity, and 45 percent of the work force -- 200,000 persons -- were thrown out of jobs. The Commerce Department estimates that for every 1 million tons of imported steel, 25,000 to 30,000 jobs are lost.

In January, 1982 U.S. steel companies filed suit for relief through application of countervailing duties. Last summer, the International Trade Commission and Commerce Department agreed, resulting in the imposition of additional duties of up to \$250 a ton on steel imported from seven European countries, South Africa, and Brazil. The Customs Service collected the data on which these findings were based, and later implemented collection of the countervailing duties equal to the estimated subsidy.

This strong enforcement stand strengthened the hand of the Federal government in negotiations with European steel producers, and last October the Commerce Department was successful in concluding a quota agreement that will limit European steel imports on 11 carbon steel products to 5.12 percent of the American market until 1986. This quota agreement will, of course, be implemented and enforced by Customs.

However, it should be noted that Europe accounted for only 6 million of the 20 million tons of steel imported to this country in 1981. If the gap left by the Europeans is not to be filled by other steel exporters -- chiefly, Japan, Korea, and Brazil -- Customs will need to continue to monitor steel imports from these countries. Moreover, the European agreement did not effectively cover imports on steel pipe and tubing which have harmed American producers. It will fall to Customs to monitor these shipments closely until this problem is resolved.

Protection of our specialty steel producers will also depend upon Customs' import documenting and fact-finding capability.

If steel shipments are not physically verified, and documents stating country of origin, price, and quantity are not examined for accuracy, our trade law enforcement in this vital area will become a dead letter. Yet this is precisely what the Administration is proposing with its cut of 320 Inspectors and 300 Import Specialists for FY 1984. What would be the cost of the jobs lost, and the attendant unemployment, welfare, and social costs, from law enforcement compared to the \$60 million it would cost to restore these positions?

We must not forget that a similar drama is being enacted in the American automobile industry, where 280,000 workers are now unemployed, compared to 213,000 a year ago. Despite a voluntary quota agreement limiting Japanese imports to 1.68 million passenger cars, the Japanese share of the U.S. market rose to 22.6 percent last year -- the highest in history. News accounts indicate that in all probability the present agreement, which expires on March 31, will be extended for a third year.

It is still unclear whether additional relief will be required to save American jobs and rejuvenate the automobile industry. At the present time, the Customs Service is responsible for monitoring the volume of automobile imports, classifying shipments in accordance with U.S. tariff schedules, and collecting appropriate duties. Should a quota be adopted, it is clear that the burden of implementing such a policy will fall squarely upon the Customs Service. Considering the real possibility of such action, the shortsightedness of a cutback in the Inspectional and Classification and Valuation resources of the Service at this juncture becomes readily apparent.

When important national interests are at stake, protecting American industries through import restrictions is one of the many policies that need to be considered. We submit that this country should not unilaterally disarm itself by cutting 20 percent of its Inspectors and 28 percent of its Import Specialists, as the Administration proposes.

4. Serving a Growing Domestic Tourism Industry

One of the major factors affecting Customs resource needs is our national policy of encouraging foreign visitors to this country. This has led in recent years to the rapid growth of passenger arrivals at our land, sea, and air ports of entry, visibly taxing Customs' processing capabilities. Moreover, as many of our cities and regions seek to participate in the growing tourist trade by becoming international gateways, the inability to provide adequate Customs personnel to staff these new facilities is becoming painfully apparent.

This country has too much to lose by allowing Customs to become a hindrance to the expansion of our tourism industry. Foreign visitors are now coming to the U.S. at the rate of 20 million a year, about 8 million from overseas (Canada and Mexico have consistently accounted for the largest number of foreign visitors). In 1980, foreign visitors spent an estimated \$12 billion in the United States, producing approximately \$1.4 billion in Federal, State and local tax revenues. Moreover, between 1970 and 1979 these expenditures grew by more than 250 percent, well ahead of other measures of economic activity.

The travel and tourism industry is now the third largest industry in the United States, employing more than 6 million Americans and producing more than \$118 billion in annual sales. Commerce Department statistics show that more than a million establishments benefit directly from foreign tourists' spending in this country. More than 95,000 jobs were directly supported by foreign visitors food purchases alone in 1978.

Nevertheless, 1982 was a lackluster year for international travel to this country. The overall number of foreign visitors declined 9 percent. While most of the loss was accounted for by a drop in visitors from Great Britain, West Germany, France and Canada declined as well. Since 1982 was a year of deep recession for the world economy, it can be safely assumed that international travel growth will resume with economic recovery.

Even more serious, however, is the fact that the U.S. market share of international tourism has been falling in recent years. According to the Travel and Tourism Government Affairs Policy

Council, the United States now gets only 8 percent of foreign tourists, and this figure is still trending down. The reason for this, according to the Secretary-Treasurer of the Congressional Tourism Caucus, Representative William H. Boner, is the long Customs lines that greet foreign visitors, and inadequate travel promotion.

Both of these causes may be traced to the Reagan Administration's shortsighted budgetary policy. The proposal to cut 820 Customs Inspectors at a time when the Air Transport Association, after a thorough survey, found that a minimum of 230 additional Inspectors was needed at airports alone, can only serve as a deterrent to foreign travel and cost this country millions of dollars in lost business.

In a demonstration of massive unwisdom, the Administration has also proposed to zero out in FY 1984 all funding for the U.S. Travel and Tourism Administration. It is proposing this action despite the fact that the U.S. gets \$18 back for every dollar spent on overseas travel promotion. We can think of no more retrograde action, at a time when jobs and income are so important to our economy, than to turn our back on the sound program of the National Tourism Policy Act which President Reagan signed into law in October, 1981. The U.S. Travel and Tourism Administration should be fully funded at the minimum level of \$14 million which it requires to do an adequate job of promoting travel to this country.

While travel promotion is the purview of other committees of the Congress, the Trade Subcommittee has the ability to do something about the frequent congestion and overtaking of

facilities occurring at our air, land and sea ports. This problem is caused mainly by the low number of Inspectors attempting to keep pace with the growing number of visitors over the past decade.

If the U.S. is to exploit its natural advantages as a Mecca for foreign visitors, the Customs Service must be provided with an adequate number of Inspectors to reduce present congestion and accommodate the expected growth in future traffic. Besides the 230 additional Inspectors specified by the Air Transport Association for our airports, many of our land border ports such as San Ysidro, Laredo, and Niagara Falls are experiencing lines two to three hours long. Taking matters into its own hands because of the intolerable situation that exists at some locations, the House last year voted an additional \$5 million for more Inspectors at our land ports in the Southwest.

This Subcommittee has taken the lead in requiring Customs to develop new inspectional techniques to facilitate the processing of travelers while not reducing enforcement. As you are aware, last year the Federal Inspectional Services (FIS), composed of Customs, Immigration and Naturalization Service, and the Animal and Plant Health Inspection Service of the Department of Agriculture, tested at Miami and Los Angeles International Airports a new inspection procedure known as ASIST, the Accelerated Special Inspection System Test. We will discuss the FIS report of this test in detail in our testimony, but here we wish to make one point, which is that staff savings failed to materialize as a result of the new inspection procedure. In fact, the GAO report on the test found Customs staffing in Miami to be

inadequate. In our experience, there is simply no way to get around the problem of adequate staffing if large numbers of passengers are to be processed while maintaining enforcement.

We strongly urge the Subcommittee to consider the need for additional Customs Inspectors in light of the contribution of the travel and tourism industry to the U.S. economy. Certainly, the advantages to the nation's balance of payments, plus the additional jobs and tax receipts accruing from tourist expenditures, would far outweigh the cost of several hundred additional Inspectors.

5. Safeguarding American Agriculture

One of the principle missions of the U.S. Customs Service is to prevent the introduction into this country of foreign plant or animal pests that would endanger American agriculture. Considering the paramount role of the nation's \$500 billion agriculture industry, and the enormous costs of eradication should an outbreak of disease occur, an adequate level of baggage inspection at our ports of entry is an absolute necessity. The possible introduction by an unwary traveler of pests that could seriously damage our ecology is an ever-present danger that our country has been able to forestall by the sound policy of passenger baggage inspection at our borders.

For this task, the Department of Agriculture has in the past reimbursed Customs for the cost of 221 Inspector positions. Customs Inspectors perform primary inspection of travelers arriving by air and sea. Based on the declaration form, the finding of agricultural items, and in some cases, a passenger

profile provided by the Animal and Plant Health Inspection Service (APHIS), the Customs Inspector may refer the passenger to a Plant Protection and Quarantine Officer for secondary agricultural inspection.

The importance of this task was driven home in 1981 by the Mediterranean Fruit Fly infestations in California and Florida. Those infestations cost more than \$50 million to eradicate. It has been estimated that a general infestation by this pest, which feeds on over 300 different fruits, would cost \$200 to \$250 million annually in agricultural losses.

The U.S. has not experienced an outbreak of Foot and Mouth Disease since 1929, though countries as close as Great Britain and Brazil have not been so fortunate. The Agriculture Department estimates that it would have a \$10 billion impact on the livestock industry if introduced in this country today. Our system of agricultural protection must be working if we have thus far kept out this disease, but we cannot afford to let down our guard.

African Swine Fever, which has recently made an appearance in Cuba and the Dominican Republic, is another animal disease which may enter through pork products contained in passenger baggage or airplane waste. There is no known treatment for the disease, which would cause \$2 billion in losses the first year.

The soil from plants carried by unwary travelers serves as a means of transport for many pests, which could increase crop losses from 5-10 percent if introduced into this country.

Passenger-carried meat and meat products also pose a serious threat. In FY 1980, 123,123 individual lots of meat and meat products totaling 305,635 pounds were confiscated from arriving

air travelers. These products represented a potential source of animal disease that could severely damage our livestock industry.

In light of these facts, one can imagine our dismay when NTEU was informed by Customs only three months ago that, as a result of a reduction of \$1.8 million in reimbursable funding from the Department of Agriculture, the Service was immediately eliminating 95 of the 228 positions devoted to hand baggage inspection at air and sea ports. As a result, baggage inspection was to be immediately reduced to the indicated levels at the following airports:

Anchorage, AK	50%
Atlanta, GA	36%
Boston, MA	27%
Chicago, IL	50%
Dallas, TX	67%
Dulles	45%
Honolulu, HI	47%
Houston, TX	56%
John F. Kennedy	45%
Los Angeles, CA	33%
Miami, FL	25%
New Orleans, LA	33%
San Francisco, CA	34%
Seattle, WA	29%

In addition, all sea passenger hand baggage inspection for agricultural purposes was being terminated, and seed sampling on our Southern border would no longer be performed.

We cannot think of a more shortsighted policy. In the past, this Subcommittee has taken a firm stand on the importance of adequate agricultural inspection as a safeguard that must not be relaxed. This position was forcefully stated in the Subcommittee's report on the Customs Authorization bill two years ago. We urge the Subcommittee to persevere in this course, and to restore Customs funding for these positions in light of Agriculture's apparent inability to do so.

6. Halting Illegal Immigration

Customs has been playing an increasingly important role in the control of illegal immigration at land border ports and outports where no Immigration and Naturalization Service (INS) Inspector is available, and at airports where Customs and INS Inspectors are cross-trained to perform each other's missions. The magnitude of illegal immigration into the country, and the attendant social costs (lost jobs, lower wages, sweatshop working conditions, and strained community services) are fueling the call for stronger enforcement at our nation's frontiers. The problem is not limited to our land borders, but includes the nation's air and sea ports, where a growing number of aliens are attempting to gain entry through use of forged passports.

The Census Bureau estimates that there are currently 5 to 10 million illegal aliens in the U.S., and that 500,000 to 1 million more enter illegally each year. These illegal immigrants take American jobs and contribute significantly to the high rate of unemployment. The total number of unemployed, which now stands at 12 million, would be cut in half if the jobs held by undocumented workers were available to our citizens. This would relieve the U.S. budget of some \$34 million in unemployment and welfare compensation.

As things now stand, the nation remains wide open to illegal immigration, and the pressure on our borders is growing every day. Last year over 800,000 aliens were apprehended attempting to cross our Southwestern frontier, and arrests were up 20 percent over 1981. In some locations, such as the Chula Vista, California border section between San Diego and Tijuana, Mexico, the number

of arrests last month jumped 74 percent over the number in the first half of January, 1982. According to INS Commissioner Alan C. Nelson, Mexico's peso devaluation and economic difficulties probably account for much of this movement. But aliens other than Mexicans, including a significant number from El Salvador, are also streaming across the Southern border.

According to one estimate, if illegal immigration continues at current levels it will add 37 to 70 million people to the U.S. population in the next half-century. This will place an extraordinary burden on the nation's ability to provide jobs and an adequate standard of living for our people.

Recent studies by State and Federal authorities have found that the budgetary costs of illegal aliens are huge. Illinois' Attorney General estimates that his state loses \$66 million a year in unemployment benefits paid to illegal aliens who use phony immigration documents when they apply for aid. Similar cases involving welfare and food stamps have been uncovered in California. That state's Department of Social Services discovered that hundreds of aliens in San Diego, Los Angeles, and San Francisco had submitted fraudulent forms to qualify for benefits.

The Reagan Administration is seemingly concerned about the immigration problem, but this has not stopped it from submitting totally inadequate budgets for Customs, which is on the front line in this struggle. We urge the Subcommittee to recognize the joint role of Customs and INS in carrying out this important mission, and to allocate the resources necessary to secure our society and economy from this growing burden.

2

PROGRAM, BUDGET AND POLICY ISSUES

We turn now to a discussion of the workload and adequacy of resources in each of Customs' principle functions: Inspection and Control, Tariff and Trade, and Tactical Interdiction. We will also focus on the major issues that deserve consideration by the Subcommittee.

Inspection and Control

There is a large and growing workload/resource imbalance in the Inspection and Control function of Customs due to the number of Inspectors failing to keep pace with the growth of international trade and tourism.

Significant indications of workload growth are that:

- the volume of U.S. merchandise imports has been growing at an 8 percent annual rate for the past decade, and is projected by Customs to continue growing at this rate through 1985;
- Airline passenger arrivals from abroad increased 70 percent between 1973 and 1981, a 9 percent annual rate;
- Total persons arriving from abroad will total 340 million in FY 1984, an increase of 13 million over 1983 and 39 million over the past two years;
- Air cargo imports have been growing at a 14 percent rate in recent years, and are projected to increase to 1.5 million tons in 1983, double the level of 1978.

In order to place these statistics in perspective, we would like to note the following points.

Some of our airports, such as Miami and Atlanta have experienced a rate of growth far above the national average, and

have had a totally inadequate number of Inspectors assigned for the past three years. Atlanta alone experienced a 523 percent growth in international passenger traffic in the three-year period, 1977 to 1980. The advent of wide-body aircraft arriving at closely spaced intervals has led to peaking and congestion at all major airports, especially during the tourist season. The need to handle this traffic has placed a premium on passenger processing to the detriment of cargo inspection, with increased opportunities for smuggling.

In fact, the largest cocaine seizure in history, 3,748 pounds valued at \$175 million, was made by an Inspector last year in Miami aboard an air cargo plane, concealed in a shipment of suits and dresses. Passenger couriers, however, are an equally significant drug threat. According to the National Narcotics Intelligence Consumers Committee, passenger couriers transport virtually all the heroin entering this country, and a large percentage of the cocaine continues to arrive through "body-packing" or ingestion by couriers on air passenger flights.

Last year, the number of travelers arriving from abroad, most of whom entered at our land border ports, increased by 26 million compared to a Customs estimate (in last year's budget request) of 13 million. This erroneous estimate contributed to understaffing and huge congestion at land ports of entry, and shows the pitfalls of submitting an unrealistic budget. If Customs had been permitted to plan rationally for anticipated workload growth, many of the problems that have been occurring on our Southwestern border could have been avoided, and border enforcement would not be in a state of near collapse from the

weight of the traffic our thin line of Customs Inspectors have had to contend with.

Customs resources in the Inspection and Control area have remained static between 1978 and 1983. Now the Administration is proposing to reduce the number of Inspectors to below the level of 1972, despite a 100 percent growth in the number of merchandise imports and air passenger arrivals since that year. This is indicated in Table 1, which shows the trend in the number of Inspectors since 1972, and the Administration's proposal for FY 1984.

The Customs workload/resource imbalance is further illustrated by Exhibit I, appended to our testimony. This chart, taken from the Long-Range Strategic Plan prepared for Customs by the firm of Peat, Marwick, Mitchell & Company, shows actual and projected workload to 1985, and compares this workload to Customs outlays in constant dollars. The results are striking. All the workload trends are rising, but the real level of Customs outlays stays at about the 1975 level.

These facts clearly demonstrate the crux of the problem confronting the Customs Inspectional force today. Customs has essentially an uncontrollable workload, which continues to rise while the number of Inspectors remained stable. As a result of increased demands from foreign carriers, the static work force is required to put in more hours on the job. Overtime mounts and becomes the principle resource utilized to accommodate the growing demand for service.

As workload continues to outstrip the capacity of the Inspectional force, the point is ultimately reached where

concessions are made in the form of reduced enforcement.

Countless signs of this erosion exist today, providing graphic evidence of conditions that require immediate correction. Some prominent examples are:

- Customs has been inspecting less than 1 percent of all containerized shipments, which account for over 70 percent of seaborne cargo, despite clear evidence of increased drug seizures and revenue collection when the inspection rate is increased. Last year, the number of containers inspected fell to 0.3 percent of the total number imported.
- At many coastal ports, private vessels such as boats and yachts arriving from foreign destinations have been placed on a virtual honor system with regard to Customs inspection. Owners are permitted to notify Customs telephonically within 24 hours of arrival, and the formalities usually consist of negative replies to a few questions. Customs attempts to keep this system functioning through spot-checks, but only a tiny fraction of arrivals is ever inspected.
- Customs has gone to a system of general supervision of vessel unloading. Instead of one Inspector assigned to a ship, the Inspector may now be required to perform inspections at docks miles apart. He must frequently leave one site for another, even though his presence would be a deterrent to smuggling at the initial location.
- At many ports, Customs lacks the resources to exercise proper supervision over the gauging of tankers by representatives of the oil companies. As a result, Customs' role as the only independent source of data on crude oil and petroleum product

imports is abnegated, revenue collections (when import fees are imposed) are jeopardized, and energy policymaking in times of emergency is undermined by the lack of reliable data.

-- In many ports and outlying areas, Customs lacks the resources to ensure the physical security of the Inspectors themselves. It is not unusual for Inspectors at many land border ports, or on the "graveyard shift" to work alone. Lone Inspectors are exposed to encounters with narcotics traffickers, fugitives, terrorists, and other criminals. Help in many instances is two or more hours away. For these reasons, NTEU has long held that sufficient numbers of Inspectors should be assigned to each port so that, for their own security, Inspectors may be teamed on isolated assignments.

On May 25, 1979 a lone Inspector on duty at the Customs station in Lynden, Washington was shot and killed while questioning an escaped felon who was entering the U.S. from Canada. Despite repeated requests from this union and members of Congress, Customs to this day has not assigned sufficient Inspectors to permit greater security at this port of entry. We strongly urge the Subcommittee to consider these facts in its deliberations on the number of Inspectors to be funded for FY 1984.

Mr. Chairman, these conditions are symptomatic of a general breakdown in enforcement which our union, as a representative of U.S. Customs Inspectors, has been emphasizing since 1973. The unvarnished truth is that there are wide areas of minimal enforcement or non-enforcement of the Customs laws today, and more are emerging. Surely it is a congressional responsibility

to provide the dedicated men and women of the Customs Service with the resources they need to do the job.

Two years ago the Trade Subcommittee directed Customs, in conjunction with INS and the Department of Agriculture, to test new methods of passenger processing at our airports, with the object of minimizing delays to travelers while maintaining enforcement. In compliance with this directive Customs initiated ASIST, the Accelerated Specialized Inspection System Test, at the Miami and Los Angeles International Airports. The principle characteristic of ASIST, in line with recommendations of both the General Accounting Office and the Air Transport Association, was to process passengers through a "one-stop" station where both Customs and INS primary inspections are performed prior to the passenger's claiming his checked baggage. It was reasoned that overall waiting time at the airport could be reduced if Federal Inspection Services (FIS) processing could begin while passengers were waiting for their checked baggage, which surveys have shown takes an average of 24 minutes to arrive.

Under the inspection procedure, primary screening was performed by either a Customs or INS Inspector, each of whom was to be cross-trained in the other's job. The primary Inspector had the option of referring the traveler to either a Customs, INS, or Agriculture secondary inspection station if a problem was encountered in the initial screening. Otherwise, the passenger was free to claim his checked baggage and depart. Roving Inspectors were posted in the baggage claim area and at exit control points. These Inspectors could stop passengers and refer them for baggage inspection if this was deemed warranted.

This system differed materially from current inspection procedures, which require travelers to claim their checked baggage before reporting for Customs inspection. Since all passengers are subject to baggage inspection under the current system, it could be expected that enforcement under ASIST would depend significantly on the percentage of checked baggage that was inspected. This could be measured by the number of referrals to secondary, since all passengers referred to secondary had to first claim their checked baggage.

The final report of the Federal Inspection Services on ASIST was submitted last summer. What were the results?

In Miami, 50 percent of the passengers exited the inspection facility in 33 minutes under ASIST, compared to 44 minutes pre-ASIST, for a 25 percent gain in speed of processing. Ninety percent were out the door in 66.5 minutes, compared to 74 minutes pre-ASIST, or 10 percent faster. To put these times in perspective, it should be noted that the average time for a passenger on a domestic flight to exit the terminal at Miami, from the block time of the aircraft, was 30.5 minutes.

In Los Angeles, 50 percent of the passengers exited the inspection facility in 43 minutes under ASIST, compared to 40 minutes pre-ASIST, for a 6 percent longer processing time. Ninety percent of the passengers cleared in 75 minutes, compared to 66 minutes before ASIST, or 15 percent longer. The average time for a passenger on a domestic flight to exit the terminal from the block time of the aircraft was 26.7 minutes at Los Angeles.

In Miami, all enforcement indicators were down under ASIST for both Customs and INS. Interceptions of agricultural products increased, due mainly to assignment of additional APHIS staff for the test. The drop in Customs enforcement included 32 percent fewer arrests, 40 percent fewer drug seizures, 18 percent fewer merchandise seizures, and 10 percent fewer currency seizures. For INS enforcement, one alien out of every 2,000 applicants was denied admission under ASIST, compared to 1 out of 1,700 for the same period the year before. This represents a 15 percent drop in INS enforcement.

In Los Angeles, Customs enforcement measures were mixed, with some rising and others falling. INS enforcement was down sharply. As at Miami, APHIS enforcement rose significantly as additional staff were assigned to the test. Customs enforcement showed a 45 percent increase in arrests, 44 percent increase in merchandise seizures, and 85 percent increase in currency seizures. However, cocaine seizures were down 17 percent, marijuana seizures dropped 14 percent, and overall drug seizures fell 6.5 percent. For INS, one alien out of 3,695 was denied entry under ASIST compared to one out of 2,396 a year earlier. This represents a 35 percent drop in INS enforcement.

In Miami, the number of passengers referred for secondary inspection was 22.1 percent under ASIST compared to 16.4 percent pre-ASIST.

Both Customs and INS conducted the test with no increase in staff, though their resources were merged in accordance with the test concept. While Customs concludes that ASIST has the potential for staff savings, this finding is wholly unsubstantiated

by the report. In fact, what little data appears in the report, such as a significant increase in Inspector overtime, and an increase in the number of supervisors required, tends to support the opposite conclusion.

The report also shows that, based on staffing requirements, ASIST requires 7.7 percent more personnel than one-stop (Chart D.28, p. 78 of the Report). Finally, GAO's evaluation of the test found that the staff in Miami was inadequate for the inspection system being implemented, particularly due to a shortage of Inspectors at exit control points.

There is, therefore, no reason whatsoever for placing any confidence in the conclusion that implementation of ASIST will lead to staff savings. The most that can be said is that ASIST can be implemented with existing staff at some airports.

In its summary evaluation of the test, Customs compares the results of ASIST with specific criteria of success, such as passenger processing time, drug and merchandise seizures, revenue collection, staffing and overtime costs -- 14 criteria in all. It then renders this judgment: "Had the results of the key indicators been accepted at face value ASIST would be marginal at best."

However, its final conclusion is that ASIS² can provide meaningful facilitative gains provided a string of conditions are met with regard to staffing, baggage delivery, and airport facilities and support services. INS gives unqualified support to ASIST, and recommends its adoption at other airports. In its report, INS dwells on the impact of recent staff reductions and finds merit in cross-training Customs personnel to perform INS

functions. APHIS also supports ASIST provided additional staff are assigned to permit a separate Agriculture secondary, as was done in the test.

We believe that the wisest statement in the report is that ASIST is no panacea. Customs should resist pressure for its adoption at airports to which it is unsuited, and where its implementation would aim at the single goal of passenger facilitation to the detriment of enforcement.

Moreover, ASIST was implemented in such a short time frame that it is safe to say that it has not yet been adequately evaluated. Since it has continued in effect at Miami and Los Angeles, this Subcommittee should request a further evaluation covering a longer period than the initial test. In light of the adverse impact on enforcement demonstrated in both Miami and Los Angeles, ASIST should not be further expanded until evaluation indicates that Customs compliance levels can be maintained.

Let us turn now to the subject of cargo processing, which is an area where Customs is moving headlong toward adoption of a new inspection system without a proper evaluation of costs and benefits, including the impact on enforcement. The idea behind the new system, known as ACCEPT, or Automated Cargo Clearance and Enforcement Processing Test, is simple. Since Customs can make only a limited number of inspections, these should be concentrated on "high risk" shipments where the payoff is potentially greater for the inspectional resources expended. The problem is how to determine which are the "high risk" shipments. It is not possible to set up a computerized system for fingering the shipments to be checked, as ACCEPT attempts to do, without a

great deal of data collection and construction of profiles of the characteristics of "high risk" shipments and "high risk" importers. There is no evidence that Customs has collected this data and constructed the profiles, let alone tested them. What we can expect from this system, until Customs demonstrates otherwise, is "garbage in, garbage out". The system will do a less than adequate job in guiding Inspectors to the shipments that need checking.

Enforcement is bound to suffer while a system that has been inadequately prepared and tested is implemented. Enforcement under ACCEPT depends on the formula, "fewer inspections, but higher quality inspections". What we believe we will see is the former, but not the latter.

Moreover, Customs has not come up with an answer to the question of how to deal with the infinite ingenuity of the smuggler determined to beat the system. Once it becomes known that certain importers and shipments are receiving minimal inspection, how can smugglers be deterred from taking advantage of this situation?

How can potentially harmful shipments, such as adulterated foodstuffs and improperly labeled medicines, be prevented from entering the stream of commerce? With Inspectors taking samples, such shipments can be stopped at the port. Under ACCEPT, the burden will increasingly fall on the Import Specialist to make a determination, based on review of entry documents, that a shipment is potentially hazardous. But Customs has been reducing the number of Import Specialists, and those remaining are severely overworked. Besides, once the Import Specialist gets

the entry documents, the shipment may already be in the stream of commerce. So how will ACCEPT protect the public health and safety?

Section 499 of the Tariff Act of 1930 requires the inspection of not less than one package of every invoice and not less than one of every ten packages of imported merchandise. The law authorizes the Secretary of the Treasury to provide, by regulation, that a lesser number of packages may be examined when, in his opinion, the examination of a lesser proportion will amply protect the revenue. We believe this provision allows the Treasury Secretary to reduce the number of inspections required, but not to totally abrogate the requirement for inspection contained in the law. However, on September 10, 1981 Customs issued a regulation which allows the release of merchandise with no inspection at all.

Last year, we called for public hearings on ACCEPT and the related Customs regulation of September 10, 1981. We also urged this Subcommittee to bar any funds for implementation of ACCEPT until this panel is satisfied that the public interest is protected. We simply do not believe that the Subcommittee should accept unsubstantiated assertions that, because this system is "automated" or "computerized," it is a truly effective enforcement tool, and not a scheme for minimal enforcement or non-enforcement through exclusion from inspection of many goods imported into this country. We again strongly urge the Subcommittee to act on this important matter. We will be pleased to assist in any way possible with your review of the ACCEPT program.

Another area fraught with danger to the public is the Customs program to remove its employees from bonded warehouses and turn the accounting and release of merchandise over to the warehouse management. In its report on the Customs authorization for FY 1981, the Trade Subcommittee called upon Customs to conduct an in-depth national audit of bonded warehouses. The Subcommittee report noted "incredible" abuses in the program. The results of several audits that came to the Subcommittee's attention amply supported this assertion. Now Customs is trying to wash its hands of the bonded warehouses. Its new report will enable Customs to audit the future condition of the warehouses, but what about the present condition? Without the national audit called for by this Subcommittee, the potential for fraud, abuse, and scandal is huge. We urge the Subcommittee to call an immediate halt to further execution of this program until you have had an opportunity to thoroughly review Customs' plans and actions to date.

Overtime

Last year, the Ways and Means Committee voted to remove the \$20,000 cap on inspectional overtime earnings and the House of Representatives adopted this committee amendment by a vote of 220 to 178. Similarly, the Senate deleted the overtime limitation from its version of the FY 1983 Customs authorization bill and, as a result, the statutory overtime cap was eliminated in the final version of H.R. 6094, which was signed by the President on January 12, 1983.

In a letter to Representative Edward R. Roybal, Chairman of the House Subcommittee on Treasury, Postal Service and General Government of the Committee on Appropriations, Chairman Gibbons of the Trade Subcommittee and 15 Members of the Ways and Means Committee urged the Treasury Subcommittee to remove the overtime cap in the FY 1983 Customs appropriations bill. Despite the Trade Subcommittee's argument that the cap had become unduly restrictive and expensive to enforce, the House and Senate Committees on Appropriations included an overtime cap of \$25,000 in the FY 1983 Continuing Appropriations Resolution and granted the Commissioner of Customs, or his delegate, authority to waive the cap in individual cases. Because the overtime cap continues to be a burden to both the taxpayer and the individual Customs Inspector, we call upon this Subcommittee once again to take whatever steps are necessary to ensure that Customs' activities during FY 1984 are not hampered by the existence of a statutory limitation on overtime earnings.

Though only two Customs Inspectors had exceeded \$20,000 in overtime earnings during FY 1979, the year before Congress first imposed the \$20,000 cap, almost one-third of all Customs Inspectors neared the statutory limit by the end of FY 1982. This confirmed for us the fact that overtime had become a critical resource for meeting the growing demand for clearance of passengers and cargo. For nearly a decade, a virtually static number of Inspectors has been available at our nation's ports of entry to meet a steadily growing number of air travelers and formal entries of goods. On balance, overtime has become a necessary and cost-effective tool in Customs' strategy for

meeting its enforcement and revenue collection responsibilities with a work force limited by Office of Management and Budget (OMB) personnel ceilings.

An Inspector with overtime earnings of \$15,000 to \$20,000 a year works an average of 62 hours a week, 52 weeks a year. In fact, a 1981 Customs' study of overtime showed that, in addition to a normal 40-hour week, the average Inspector is required to work three of every four Sundays, one Saturday per month, and seven weekday overtime assignments per month. Clearly, the cap has not reduced the overall amount of overtime necessary to meet the demand for service. It has merely spread overtime out among the staff to such an extent that employees who do not want to work overtime are forced to, while those Inspectors who are willing to work longer hours are prohibited from doing so.

Forcing Inspectors to work long hours on overtime has driven many dedicated employees out of the Service. In some cases this has led to even more tragic consequences. An Inspector in Detroit died of a heart attack last year after working an overtime shift from which she had asked to be excused. The Inspector had been assigned to work 4-12 p.m. on Sunday and then required to return to work at 7:00 a.m. Monday. She asked to be excused from overtime Monday night but was ordered to work. There were other Inspectors who were present and willing to work but were not allowed to because they had reached the overtime cap. She died of a heart attack later that evening.

In Houston, where the seaport stretches for 60 miles, Customs has seen several women Inspectors resign over the past year after being forced to work late at night on overtime.

Incidents in which female Inspectors were accosted while working late in unsafe areas were also reported.

While proponents of the overtime cap claim to be acting in the employee's interest by limiting the amount of overtime Inspectors can be compelled to work, the overtime cap has had the exact opposite effect by completely eliminating the voluntary aspect of overtime. Prior to the imposition of the cap, Inspectors were able to work out an allocation of overtime duty which took into account their personal needs. Inspectors who wanted to earn more money and were willing to sacrifice their free time or work late at night volunteered for overtime, while Inspectors who had family obligations or other non-work commitments did not. And although this system led to an imbalance in earnings, because the Inspectors were able to choose which assignments they wanted, efficiency and productivity were greatly enhanced.

We strongly believe that employees willing and able to work overtime without foregoing family obligations should be permitted to do so, and that the burden of forced overtime should be minimized. Morale at the workplace is fostered by allowing individual preferences to play a greater role in the assignment of overtime, not by a rigid policy of equalization of earnings.

For the past two years, Customs itself has urged Congress to remove the overtime cap. Treasury Department officials have testified that, in addition to costing \$1 million a year to administer, the cap is preventing Customs from properly allocating its limited resources among ports experiencing different rates of growth. Instead of using local Inspectors to clear carriers on

overtime, Inspectors have been transferred from other ports at government expense to do the job.

Moreover, the overtime cap is interfering with the accomplishment of Customs' mission. Inspectors who exceed the cap are not available for overtime assignments, and some services are either being withheld, or they are being provided by less experienced part-time employees. In some cases, Customs has been forced to use non-inspectional personnel to clear incoming flights. In other cases it has had to replace Inspectors who have reached the cap with higher-salaried supervisory personnel, at a greater cost to both the carriers and the government. In light of this cost, we urge the Subcommittee to keep in mind the fact that over 70 percent of all overtime earnings are reimbursed to the government by the carrier which requests clearance after normal port hours.

The \$25,000 cap imposed during FY 1983 was intended to avoid allowing a sizeable number of Inspectors to reach the cap. But we would like to remind the Subcommittee that, as Customs testified last year, it would need to raise the cap to between \$26,000 and \$30,000 to assure that its workload requirement was met by available personnel during FY 1983. Moreover, with a 4% pay raise, the \$25,000 cap is now effectively \$24,000.

This Subcommittee wisely chose to eliminate the cap altogether and urged Customs to maintain internal controls on the use of overtime. Customs asked for that kind of administrative flexibility last year and stated that it would actually save the government money. We hope the Subcommittee will therefore once again delete the overtime cap from its authorizing legislation.

Before we leave the subject of overtime, we would like to briefly address the rate of overtime pay provided under the Act of 1911. The most recent data collected by Customs shows that Inspectors are earning, on the average, 2.1 times the regular rate of pay on Sundays, and 2.4 times the regular rate on the other days of the week. The Customs study attributes the 2.4 rate of pay to the call-back of Inspectors who have left the work site. Such call-backs frequently occur at night and at irregular hours, taking a physical toll on the Inspector. In addition, there is often a good deal of uncompensated travel time to and from the port, and waiting time when aircraft or ships are delayed in arriving. The study also confirms that the average Inspector works 7 hours on each Sunday assignment, and an average of 8 hours if holidays are included in this figure.

We remain convinced that the frequent call-backs, the late-night hours spent away from home, and the physically demanding nature of inspectional duties justify the present rate of overtime pay. Moreover, these rates of pay conform with the prevailing overtime rates in the private sector, which normally establishes double-time premiums for call-back and night work, and where the typical practice is triple-time for Sunday overtime and double-time-and-one-half for holiday work.

We urge the Subcommittee to reject any Administration attempts to change the basic overtime rate of pay for Customs Inspectors. It would not only be grossly unfair to the Inspectors, who have a unique role in Federal law enforcement, but it would

seriously reduce the incentive to continue to work long hours at a time when the service is stretched thin and already lacks adequate staff.

Tariff and Trade

The Tariff and Trade activities of Customs are responsible for the collection of over \$11 billion a year in revenue to the U.S. government and for the smooth operation of our nation's trade programs. Import Specialists are now located in approximately 65 Customs offices across the country, where they are in daily contact with representatives of the importing community, sharing with them their intimate knowledge of product lines, Customs court rulings, and the technical aspects of their own commodity specialties. When one considers that there are over 10,000 categories in the Tariff Schedules, that products frequently fit more than one classification, and that proper classifications can make the difference between a duty-free entry or a 70-percent tariff, the value of this service to both the import community and the American taxpayer can be understood.

This is confirmed in a Customs survey of rejected entries conducted in May 1980. The survey found that 16 percent of all entries reviewed by Import Specialists were rejected due to errors. Classification errors were the most numerous, amounting to 32 percent, while valuation errors made up another 15 percent. In addition, 549 entries covering quota merchandise were erroneously presented as not subject to quota. In commenting on this finding, the Director of Customs' Office of Trade Operations stated:

"While this number does not appear to be statistically significant, the unlawful entry of 549 shipments of quota merchandise would have had catastrophic repercussions."

It also noted that the correction of these errors by the Import Specialists resulted in the collection of an additional \$53 million in import duties. The significance of this figure is apparent when one considers that the annual salary cost for the entire Import Specialist work force at that time was \$34 million.

The Administration has proposed reducing the number of entry processing locations by half and, in addition, cutting the total number of Trade and Tariff personnel by 698 employees as part of its FY 1984 budget. These cuts will save Customs \$26 million in personnel costs, and if we once again compare this to the \$53 million in entry errors found during Customs' 1980 study, the reasoning behind the proposed budget cuts appears even more shortsighted.

Even before this year's cuts were proposed, Customs Tariff and Trade activities were suffering from a growing imbalance between workload and personnel resources. As shown in Table 2, the 1,150 Import Specialists on board today are fewer than the number available during 1974. Yet in 1984, the Administration projects that the number of entries will continue to climb and will represent more than a 60% increase over the volume of imports in 1974. Even allowing for a significant improvement in productivity, which has increased historically at a 4.3 percent annual rate, it is evident that Customs has been, and will continue to be, unable to keep pace with the growth in workload.

A 1981 GAO report entitled, "Assurance Needed That Import Classifications are Accurate," belies Customs' claim that increased computerization and greater reliance on brokers will make up for this shortfall in personnel. In fact, the GAO study indicates that it is the very absence of an Import Specialist's personal involvement in the classification and valuation process that is resulting in very costly errors to both taxpayers and the U.S. government.

The report states that:

"Customs Service import specialists have insufficient time and means to adequately verify Tariff Schedule classifications assigned by importers or their brokers to billions of dollars worth of foreign products entering the United States annually. Proper classification is essential for determining the appropriate import duty, treating importers consistently, and compiling import data for formulating trade policies.

"Verification is hindered, in part, by a cursory entry-by-entry review of entries, a relatively large number of incorrect entry documents which are rejected and must be resubmitted, and the lack of a quality assurance program.

"The Service's problems are intensified by a relatively unchanging work force and a sharply increased workload."

The report also notes that steps essential to confirming import classifications -- physical examination of the articles and, where appropriate, laboratory analysis coupled with application of legal principles and prior rulings -- are often not performed. GAO found that, in a random sample of entries in three Customs field offices, up to 74 percent of product classifications were accepted solely on the basis of reviews of entry documents. Of products susceptible to laboratory analysis, only 13 of 242, or 5 percent, were analyzed. From 75 to 85 percent of the products were probably never physically examined, according to the report.

As the report points out, a few hours on the importer's premises, viewing samples and establishing classifications, can save untold staff hours by permitting Customs to liquidate most entries upon receipt. In fact, during FY 1981, Import Specialists made over 8,000 visits to importers' premises. While importers consider this to be a very valuable service to their business, it also allows Customs to save the government money by eliminating the potential for rejected entries, time-consuming post-entry work, and entry backlogs resulting from errors.

The value of the service provided by Import Specialists to the trading community is best illustrated by the overwhelmingly negative response of importing agents and brokers to Customs' plan to centralize the appraisement function in 35 locations, down from the present 65. A letter from one North Carolina agent written in response to Customs' proposal to transfer the Import Specialists stationed in Wilmington, North Carolina to Norfolk, Virginia, best sums up the problem:

"U.S. Customs personnel in North Carolina have played a major role in our opinion, in the growth of the North Carolina ports. U.S. Customs personnel have played a very major role in the expeditious clearance of imported cargo through the ports of North Carolina...

"By placing our port under the district in Norfolk, we, of course, feel left out in the cold. The closest Import Specialist which we would have contact with would be Norfolk, Virginia. Therefore, each time we had a question it would be necessary to place a long-distance call to Norfolk and discuss the problem, whereas now, within five minutes we can be in the Customs office discussing our problem face-to-face with an Import Specialist or with other Customs officials as necessary...

"A few years back, Customs experimented with what was called centralized appraisement within each region of the Customs Service. Import Specialists at different ports were assigned different commodities for which they would have responsibility for final appraisement and classifications. Therefore, an importer could

have his merchandise imported at the port in Wilmington but have his entry appraised in Miami. Not only did it take longer to have merchandise appraised, but it became virtually impossible to have contact with the Import Specialist who was actually appraising a particular type of merchandise. We think that this method proved to be very costly and cumbersome to the U.S. Customs Service; therefore, this plan or program was discontinued. Almost immediately, there was a remarkable improvement in the appraisal of merchandise. We think that we are headed for another disastrous experience if the Customs districts are reorganized as we have heard they would be."

During consideration of the FY 1983 Continuing Appropriations Resolution, both the House of Representatives and the U.S. Senate expressed reservations about the Administration's plan to centralize Customs' appraisal function and, in a piecemeal fashion, responded to the objections of importers and their congressional delegations by prohibiting Customs from eliminating twelve entry processing locations, including Customs offices in Duluth, Minnesota/Superior, Wisconsin; Milwaukee, Wisconsin; Bridgeport, Connecticut; Portland, Oregon; Miami, Florida; Saint Albans, Vermont; Anchorage, Alaska; and Blaine, Washington.

Since that time, importers and members of Congress from other ports affected by the centralization program have voiced strong objections to shutting down appraisal offices and transferring Import Specialists to distant locations. The most recent list of ports which will lose their appraisal capability by April 1 of this year includes the ports of Pittsburgh, Pennsylvania; Charlotte, South Carolina; Greenville-Spartanburg, North Carolina; Jacksonville, Florida; Port Everglades, Florida; Eagle Pass, Texas; San Diego, California; Phoenix, Arizona; Sweetgrass, Montana; Great Falls, Montana; Portal, North Dakota; Toledo, Ohio; and Wichita, Kansas.

Though we have requested detailed information regarding the centralization plan, Customs has still provided no rationale for the proposal and no cost-benefit analysis of its supposed advantages. In addition, Customs has not provided the impact statements on the affected communities required by executive order.

Our objection to the plan is based on our belief that it would break down the Inspector/Import Specialist team that is vital to the smooth operation of our ports of entry. Ultimately, the centralization plan will cost the government billions in lost revenue resulting from entry errors. The range of commodities that an Inspector must examine is too great to permit him the expertise needed for a determination of admissibility. Consequently, the Inspector calls upon the Import Specialist, who frequently joins him in the inspection. Such teamwork is the bedrock of the entire system. It has, for example, prevented botulism-contaminated foodstuffs from entering the stream of commerce. By removing the Import Specialist from close contact with Inspectors, there is a greater likelihood of a shipment being released before its inadmissibility is discovered.

In addition, as we have shown, the loss of face-to-face contact with Import Specialists would deprive the business community of an extremely valuable service, and cost many firms thousands of dollars. At the same time, it would hinder the development of foreign trade in many municipalities and result in lost revenue to areas already hard-hit by the recession. We therefore call upon this Subcommittee to make a clear statement of policy concerning the desirability of Customs' maintaining Import Specialists

in their present locations by barring the use of appropriated funds for the implementation of this plan.

At the same time, the nation needs a firm commitment to increase the number of Customs Trade and Tariff personnel to the level required to meet the growing demands of trade and a rapidly expanding importing community. Based on the sheer volume of entries, a minimum of 1,400 Import Specialists is required. Customs estimates that, in FY 1984, it will collect over \$12 billion in import duties, or over \$18 for every dollar appropriated to the Customs Service. Hiring additional Import Specialists would not only help correct present deficiencies in the valuations and classifications program, but it would bring in additional revenue to the U.S. government.

Tactical Interdiction

For several years, this Subcommittee has expressed alarm over the epidemic level of narcotics smuggling. In particular, it has placed a high priority on stemming the flow of drugs into the U.S. across our Southern border. Given this, we find it incredible that the Administration has once again submitted a budget that reduces the number of Customs Patrol Officers, the dedicated group of men and women who are primarily responsible for the enforcement efforts of the Customs Tactical Interdiction function.

Last year, the Administration's proposal for a cut of 70 Patrol Officers was rejected by Congress' and this year OMB has requested that this corps be reduced by over 100. These cuts in personnel are even harder to justify in light of the Administra-

tion's request for a second Air Module, a resource package of aircraft, radar and other electronic gear. Clearly, if Customs is going to provide the Patrol function with added equipment, technology which we believe is badly needed in our war against smuggling, the Administration should be no less committed to providing the personnel needed to exploit this new equipment to its fullest capacity.

Along with the Customs Air Patrol, the Customs Land Patrol is enlisted in the fight against illegal immigration and narcotics smuggling. In addition, the Customs Marine Patrol cooperates with the Coast Guard and Navy and other Federal agencies in blocking the use of "mother ships" and other vessels used to bring drugs into the country. An example of the problems facing Customs Tactical Interdiction personnel is graphically illustrated by the Director of the Customs Air Support Program, who last year told the Miami News:

"What we've got is about 150 targets every day coming in, in the radar environment, and they're not talking on the radio, they're not displaying a transponder code and they're not on a flight plan. And they're not being challenged by anybody...The only people around to challenge them are us and we can only pick six to eight a day to chase."

The fact is that, of 7,000 aerial sorties made by drug traffickers into this country each year, only 1 percent are being successfully interdicted.

As you are aware, the Administration has launched an effort in South Florida to attack the drug problem, and the FY 1984 budget proposes that twelve regional task forces work around the country to combine the efforts of Federal law enforcement agencies to fight drug trafficking by organized crime. What the

Administration seems to be adding on the one hand, it is reducing on the other. For the reduction in Customs Patrol Function is a net reduction from last year's budget.

We ask that the Subcommittee give very serious consideration to the priority that should be accorded Customs Tactical Interdiction, in light of the enormous drug and immigration problems facing this country.

NTEU'S RECOMMENDATIONS FOR AN ALTERNATIVE BUDGET FOR THE CUSTOMS SERVICE

Table 3 appended to our testimony contains our recommendations for an alternative budget that will enable the Customs Service to meet minimum essential requirements for Fiscal Year 1984. High among these requirements are the need for additional Inspectors at our ports of entry, the need for an adequate number of Import Specialists to process a growing volume of imports, and the need for additional Customs Patrol Officers to guard our frontiers.

We would like to summarize these recommendations.

First, we recommend an additional 200 Inspectors and \$7.5 million above the level of the FY 1983 Continuing Resolution. This necessarily entails restoration of the Administration's proposed cut of 1,195 Inspection and Control positions and \$45.7 million. Also, the 170 positions being lost through decreased reimbursement would be restored, at a cost of \$7.8 million. The total additional requirement for Inspection and Control would be \$61 million in FY 1984.

Second, we recommend an additional 150 Import Specialists and \$5.6 million above the level of the FY 1983 Continuing Resolution. This entails the restoration of the Administration's proposed cut of 698 Tariff and Trade positions, and \$26.9 million. The total additional requirement for the Tariff and Trade function would be \$32.5 million in FY 1984 under the NTEU recommendation.

Third, we recommend an additional 50 Customs Patrol Officers and \$1.9 million above the level of the FY 1983 Continuing Resolution. This entails restoration of the Administration's proposed cut of 102 positions and \$1.2 million for Tactical Interdiction. The total additional requirement for Tactical Interdiction would be \$3.1 million for FY 1984.

Fourth, we recommend that the Subcommittee allow 256 positions and \$50.7 million above the level of the FY 1983 Continuing Resolution for program additions proposed by the Administration, namely, \$10 million for Operation Exodus, \$3.7 million and 31 positions for support of the Summer Olympics, \$18.3 million for a second air module for drug interdiction, \$15.9 million and 225 positions for the Customs contribution to the President's new organized crime and drug enforcement task forces, \$2.3 million for new ADP equipment, and \$.5 million for toxic substance control. These amounts are already included in the Administration's budget request.

In sum, we urge a restoration of Administration cuts in Customs functions totalling 2,000 average positions and \$72.6 million. This restoration would save RIF costs of \$20 million, or a net increase of \$52.6 million. We also support the program

improvements and \$15.3 million allowance to maintain programs at current levels, as proposed by the Administration, totaling \$66 million and 256 average positions. Going further, we would add 400 positions and \$15 million for essential personnel and 170 positions formerly reimbursed to Customs by the Department of Agriculture and warehouse proprietors at a cost of \$7.8 million. Thus, our total recommended addition to the Administration's budget request for FY 1984 is 2,570 positions and \$75.4 million.

We appreciate the opportunity to present our views on the FY 1984 Customs authorization and look forward to working with the Subcommittee to develop the FY 1984 budget for the Customs Service.

Table 1. Number of Customs Inspectors and Total Employment

FY 1972 - 1984

	<u>Total Employment (Average Positions)</u>	<u>Number of Customs Inspectors</u>	<u>Indexes: 1972=100 Total Employment</u>	<u>Customs Inspectors</u>
1972	11,116	3,754	100	100
1973	11,772	3,700	106	99
1974	11,878	4,000	107	106
1975	13,076	4,400	118	117
1976	13,360	4,300	120	114
1977	13,223	4,300	119	114
1978	13,854	4,399	125	117
1979	14,061	4,174	126	111
1980	13,820	4,165	124	111
1981	13,316	4,379	120	116
1982	12,924	3,987	116	106
1983 (EST)	13,492	4,125	121	110
1984 (EST)	11,748	3,305	106	88

Table 2

U.S. CUSTOMS SERVICE Formal Entries of Merchandise and Number of Import Specialists				
Fiscal Year	Number of Import Specialists	Number of Formal Entries of Merchandise	Entries Per Import Specialist	Average Annual Workload* Growth
1972	1174	2,866,000	2,441	
1973		3,240,000		
1974	1210	3,206,000	2,650	1956-1974 4.3%
1975		3,015,000		1974-1984 17.1%
1976		3,264,000		
1977		3,690,000		
1978		4,017,000		
1979	1236	4,384,000	3,547	
1980	1219	4,374,000	3,588	
1981	1165	4,588,000	3,938	
1982	1081	4,753,000	4,397	
1983 (EST)	1042	5,090,000	4,885	
1984 (EST)	751	5,395,000	7,184	
				1174
				1210
				1361
				1320
				1331
				1330
				1390
				1410

Required Number of Import Specialists Assuming Productivity Growth of 4.3% Per Year

Notes:

1. Subcommittee on Trade, Committee on Ways & Means, Background Materials on H.R. 9220, July 14, 1976; p. 39, gives Import Specialist workload in FY 1974 and average annual growth of workload, 1956-1974. Workload is measured in number of entries per Import Specialist.
2. Assuming 4.3% productivity growth per annum since 1974, the number of entries each Import Specialist would be capable of handling in 1984 would be $2650 + (2650 \times .043 \times 10) = 3790$. Dividing this into 5,345,000 entries yields 1410 as the required number of Import Specialists.

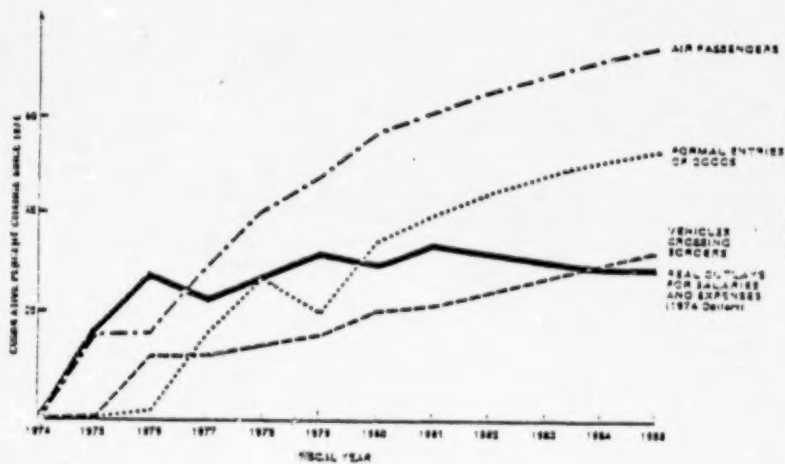
U.S. CUSTOMS SERVICE BUDGET FY 1984
Administration Proposal and Recommendation of
the National Treasury Employees Union (NTEU)

Table 3.

	Admin. proposal		NTEU recommend. to restore to FY 1983 level		NTEU add-on for minimum enforcement staffing	
	\$ (millions)/ staff years		\$ (millions)/SY		\$ (millions)/SY	
FY 83 appropriations	553.7	13,492				
FY 83 pay supplement.	+ 17.6	-0-				
FY 1983 BASELINE	571.3	13,492	571.3	13,492	571.3	13,492
FY 83 program increases:						
Op. Exodus	+ 10.0	-0-				
Olympics	+ 3.7	+ 31				
Air Module	+ 18.3	-0-				
Org. crime & Drug Enforc.	+ 15.9	+225				
ADP Equipment	+ 2.3	-0-				
Toxic substances	+ .5	-0-				
SUB TOTAL	+ 50.7	+256	+50.7	+ 256	+50.7	+ 256
FY 1984 program reductions:						
Tactical interdiction	- 1.0	- 28	-0-	-0-	+ 1.9	+ 30
Centralization of Apprais.	- 5.7	-156	-0-	-0-		
Bonded warehouse prog.	- 2.0	-114	-0-	-0-		
Region & District consolidation	- 5.7	-142	-0-	-0-		
Inspection & control	- 34.4	-198	-0-	-0-	+ 7.5	+ 200
Trade & Tariff	- 16.8	-450	-0-	-0-	+ 5.6	+ 150
Unspecified	- 7.0	-192	-0-	-0-		
SUB TOTAL	- 72.6	-2,000	-0-	-0-	+15.0	+ 400
FY 1984 increases to maintain current levels:						
RIF costs	+ 20.0	-0-	-0-	-0-	-0-	-0-
Other costs	+ 15.3	-0-	+15.3	-0-	+15.3	-0-
SUB TOTAL	+ 35.3	-0-	+15.3	-0-	+15.3	-0-
Nonrecurring costs	- 6.0	-0-	- 6.0	-0-	- 6.0	-0-
Decreased reimbursement*	(- 7.8)	(- 170)	+ 7.8	+ 170	+ 7.8	+ 170
FY 1984 BUDGET	578.7	11,748	639.0	13,918	654.0	14,318

*Reduction in reimbursement from Department of Agriculture and other programs

EXHIBIT I

CUSTOMS WORKLOAD COMPARED TO REAL SALARY
AND EXPENSE OUTLAYS: 1974-1985

SANDS TEXTILE FINISHERS, INC.,
Hauppauge, L.I., N.Y., February 9, 1983.

Hon. SAM GIBBONS,
Chairman, Subcommittee on Trade,
Washington, D.C.

DEAR CONGRESSMAN: I have been adversely affected by imports and I have laid people off from work and plan to lay more people off in the future, unless business picks up. I understand that there is a program that can help me called Trade Adjustment Assistance.

It has been brought to my attention that this program will be discontinued. I would strongly urge you to keep this program going. Many of the manufacturers in my industry have closed shop already. Unless we get some help, many more will close. Every closing increases the number of people unemployed.

You may not be aware, but the people we employ in our manufacturing facility are mostly unskilled workers. Our employment at the present time is 26. When they lose their jobs it is not easy for them to get other jobs. A good portion of the manufacturing jobs go to people in depressed areas. The only ray of hope left for these communities is to continue this program.

I strongly urge you to vote to continue this program so that we can keep American people working and not increase the unemployment rate.

Sincerely,

LOUIS SANTLOFER,
President.

J. G. TILP, INC.,
Union, N.J., February 9, 1983.

Hon. DANIEL ROSTENKOWSKI,
Chairman, House Committee on Ways and Means,
Washington, D.C.

DEAR CONGRESSMAN ROSTENKOWSKI: It has come to my attention that the Reagan Administration has recommended that Trade Adjustment Assistance for firms be eliminated for firms such as mine. We disagree with the President's proposal and ask your support to continue the program.

Many U.S. manufacturers like us have been hurt by foreign products and are trying to keep our businesses going. J. G. Tilp, Inc. is a producer of precision injection molds. In 1981 there were 113 employees, yet foreign competition reduced that to 60 workers, each on a four-day work week. We have been working with the New Jersey Trade Adjustment Assistance Center to put together a plan to help us to be more competitive in the marketplace. The New Jersey TAAC offers consulting assistance to identify our problems, improve our operations, save jobs, and allow us to remain in business.

I ask you to give your support to the TAACs and help keep domestic small to medium-sized businesses competitive.

Sincerely,

TOM PERKINS,
Secretary-Treasurer.

TRAVEL AND TOURISM GOVERNMENT AFFAIRS POLICY COUNCIL,
Washington, D.C., February 22, 1983.

Hon. SAM GIBBONS,
Chairman, Subcommittee on Trade,
Washington, D.C.

DEAR CHAIRMAN GIBBONS: We appreciate the opportunity to set forth, for the record, the views of the Travel and Tourism Government Affairs Council with respect to the FY 1984 authorization for the United States Customs Service.

The Council is the new national organization representing the industry viewpoint on legislative and regulatory issues of common concern. The travel industry is now the second largest retail industry in the nation having generated (in 1981) \$191 billion in receipts, \$15.6 billion in federal, state and local tax revenues and directly employed 4.6 million American workers, or some 5 percent of total employment.

Efficient and expeditious Customs clearance at U.S. gateways is of critical importance to the travel industry. We are concerned, as we have been for some time, that while international visitor traffic has been steadily increasing, the capability of cus-

toms to process these visitors has not. The Administration's fiscal year 1984 budget request proposes to reduce the allocation for Customs inspectors by over \$20 million. We believe that this recommendation is incompatible with an understanding of the substantial economic force represented by inbound international tourism—our third largest source of export income. In 1981, for example, the economic contributions of international visitors included: \$12.2 billion in expenditures, \$2.5 billion in payroll income, 300,000 jobs and \$1.1 billion in federal, state and local tax revenues.

Yet continually decreasing funds and accompanying service rendered by Customs personnel, suggest that these visitors are little more than a costly annoyance. While we are pleased that expedited processing systems such as "red door-green door/ASIST" are being expanded at more U.S. gateways, we find the conclusion inescapable that the implementation of such systems must be expanded more rapidly or additional inspectors must be authorized.

The projected loss of 820 Customs inspectors is particularly incongruous with the increase in traffic projected to result from, to name only two examples, the summer Olympics and the Louisiana World Exposition, both in 1984. Though we applaud Customs for taking some steps to prepare for the anticipated deluge, we are justifiably concerned that the modest inspector increase proposed will not suffice. A 1979 Comptroller General's Report, for example, revealed that the average processing time for air travelers in Los Angeles is 81 minutes (103 minutes during peak times) and 52 minutes in New York (69 minutes during peak times). Clearly, in view of the increases in traffic since that time, cutbacks in Customs funding and staffing levels will exacerbate current delays.

International visitor facilitation is a top priority for the Travel and Tourism Government Affairs Council. We urge you and your colleagues on the Subcommittee to seriously consider the implications of reduced funding for the U.S. Customs Service. Without full implementation of expedited processing systems and adequate inspector personnel at international airports, intolerable delays will not only continue but worsen.

We thank you for your attention to this matter and, at your request, will be happy to provide you or your staff with any additional information you may need.

Sincerely,

JAMES E. GAFFIGAN,
Executive Director.

TRAVEL INDUSTRY ASSOCIATION OF AMERICA,
Washington, D.C., February 28, 1983.

HON. SAM M. GIBBONS,
Chairman, Subcommittee on Trade,
Washington, D.C.

DEAR MR. CHAIRMAN: The Travel Industry Association of America (TIA) appreciates this opportunity to set forth, for the record, its views on the FY 1984 budget for the U.S. Customs Service.

TIA fills a unique need in the travel industry that stems from the industry's own diverse nature. Our membership is drawn from the airlines, attractions, hotels and motels, travel agents, tour operators and brokers, convention and visitors bureaus, state government travel offices, food service establishments, intercity bus and rail lines, and other components of the travel industry.

Tourism in America is served by nearly a million different businesses that offer a wide range of services to the traveler. Some of these businesses are organized nationally by industry component and are represented by trade associations that promote and protect their specialized interests; however, to represent the broad base of tourism, the Travel Industry Association of America deals with issues of interest and concern common to all in the travel industry. The fiscal year 1984 budget for the U.S. Customs Service is but one of these issues.

The Travel industry is now our nation's second largest retail industry. In 1981, the industry generated \$191 billion in receipts, \$15.6 billion in federal, state and local tax revenues and directly employed 4.6 million American workers.

Ensuring an efficient and expeditious Customs inspection process for international travelers has been for some time a major concern to the travel industry. This concern was recently made more acute by the Administration's fiscal year 1984 budget request for the U.S. Customs Service.

The proposed reduction in allocation for Customs inspectors by over \$20 million, and resulting loss of 820 Customs inspectors, would exacerbate existing problems of inefficiency and long delays in Customs inspections procedures at U.S. ports of

entry. In 1981, the U.S. benefited from a visitor surplus for the first time since World War II, as foreign arrivals exceeded U.S. citizen departures for foreign countries by over 200,000. Unfortunately, previous funding reductions have resulted in an inadequate number of available customs inspectors to efficiently process the recent increase in international visitor traffic through the inspection system. Further reductions in Customs inspector personnel, as called for in the Administration's proposed FY 1984 budget, would pose serious implications to the Customs Service's ability to selectively and expeditiously process a projected deluge in international visitor traffic resulting from such events as the 1984 Summer Olympics and Louisiana World Exposition.

The proposed funding decrease and accompanying service rendered by Customs personnel is particularly disconcerting when considering the substantial economic force represented by inbound international tourism, which is now our nation's third largest source of export income. For example, the 23 million foreign visitors to the United States in 1981 made considerable contributions to our economy. During that year, foreign visitors spent \$12.2 billion while staying here, which in turn directly supported over 300,000 jobs and generated more than \$1.1 billion for federal, state and local governments in tax revenue.

In addition, it is important to recognize that the U.S. Customs Service collected \$9.9 billion in fiscal year 1982, representing an increase of 8.5 percent over fiscal year 1981. The \$9.9 billion in customs revenue represents a rate of return of approximately \$19 for every federal dollar appropriated to the U.S. Customs Service.

With all this in mind, it is difficult to understand why the Administration is proposing to significantly reduce the revenue-producing inspection services provided by the U.S. Customs Service. Such action will not only adversely impact the Customs Service's potential to collect revenue but, more importantly, will discourage inbound visitor traffic by perpetuating intolerable delays at U.S. gateways.

We are encouraged by the expanding implementation of expedited processing systems, such as "red door-green door/ASIST." However, we must conclude that until such systems are expanded to more U.S. gateways, further reductions in Customs inspector personnel during the coming peak international travel season will cause public inconvenience, increased airport terminal congestion, and decreased efficiency. Therefore, we urge you and your colleagues on the Subcommittee to seriously consider the potential negative impact reduced funding for the U.S. Customs Service would have on the travel industry and the nation's economy.

We thank you for your attention to this matter. At your request, we will be happy to provide you or your staff with any additional information you may need.

Sincerely,

WILLIAM D. TOOHEY,
President.

STATEMENT OF DAVID J. STEINBERG, PRESIDENT, U.S. COUNCIL FOR AN OPEN WORLD ECONOMY, INC.

(The U.S. Council for an Open World Economy is a private, nonprofit organization engaged in research and public education on the merits and problems of developing an open international economic system in the overall national interest. The Council does not act on behalf of any private interest.)

This statement is limited to the International Trade Commission, specifically the structure of the Commission and the adequacy of ITC investigation and analysis in import-relief cases. The Council has made these points in previous Congressional hearings, but to no avail.

We question the need for six commissioners (the statutory complement). Only one of the three current vacancies need be filled (at most only two) in the interest of a properly structured Commission. The Commission has got along well with four or five commissioners at various times in its long history. The Commission might operate more efficiently with fewer than six commissioners, and each seat terminated would save the taxpayers more than \$100,000 a year when the total costs of each Commissioner's office are considered.

We question the statutorily required rotation of the ITC chairmanship (and vice chairmanship) every two years. Each commissioner is not ipso facto qualified to be chairman. We also suggest that Congress look into the necessity for each commissioner to have a professional staff (including a legal advisor) in addition to a secretary. We understand that each commissioner is currently authorized to have four persons, of whom no more than one can be higher than GS-15 and no more than one additional person can be higher than GS-14. We question the need for such pri-

vate professional staffs when account is taken of the full access each commissioner has to the Commission's formidable legal and economic personnel. We suggest inquiry into the possibility that these private staffs have led to undesirable rivalries between the respective staffs, and adversarial relations between commissioner staffs on the one hand and the Commission staffs on the other—affecting adversely the quality and utility of commissioner opinions in import-relief and other cases. The budget savings from reducing or eliminating these personal professional staffs may be of little consequence, but this is no justification for neglecting inquiry into the desirability of such reforms.

The Commission is not fulfilling its explicit and implicit obligations under the Trade Act of 1974 in import-relief investigations. It is neglecting the full implications of Section 201(b)5 by not fully assessing the adequacy of steps the petitioning industry has taken toward becoming more competitive with imports, and not assessing the extent to which government statutes and regulations may be impairing the industry's adjustment capability. Also neglected is assessment of the differential impacts which import restriction may have on different sectors of the industry. Wind-fall gains for some factors that may not need government help may cause additional problems for those that do.

Not all these analytical factors may materially affect the Commission's decision in every case, but all are important for the President to assess if he wishes to develop a coherent industry-adjustment policy whether or not the Commission finds serious injury or threat thereof, but particularly if it does. Such an adjustment strategy should be the framework for any resort to import control, and the trade law should so require. However, the President is free to proceed along these lines even without a legislative mandate, and the ITC should want to help him in this regard in every way it can. Nothing in the trade law prevents the Commission from doing so. In this regard, the Commission is less imaginative and innovative than it can and ought to be.